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TOWARDS THE JUSTIFICATION AND DEVELOPMENT
OF A MORE SOCIALLY RELEVANT ACCOUNTING

BY

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A Master's Thesis submitted in partial fulfilment of the requirements for the award of the degree of Master of Philosophy of the Loughborough University of Technology, 30 June 1987.



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DEDICATION

This thesis is dedicated to Rita Elizabeth Mathews.

Acknowledgements

It is customary to acknowledge the assistance and encouragement received from supervisors during the preparation of a thesis. However, this thesis is submitted under Regulation 7 of the Regulations for Higher Degrees by Research of the Loughborough University of Technology, which provide for the submission of theses, without supervision, by current or former members of the academic staff of the University. Consequently, there are no supervisors to acknowledge.

The research reported herein has taken place over several years. During that period the author has benefitted from discussions with many academics, graduate and undergraduate students and interested parties. Only the most prominent assistance, can be acknowledged here, to all others a general 'thank you' must suffice.

Special thanks are due to Andrew Piper, formerly of the University of Birmingham and more recently of the Chinese University of Hong Kong, Dr Irene Gordon of Simon Fraser University and Professor M.J.Pratt of Massey University.

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Abstract

The objective of this thesis is to report on an examination of those aspects of accounting which are frequently referred to as 'social accounting'. Specifically, a number of arguments for and against the development of social accounting are detailed and evaluated in Part I, which has the overall theme of providing a justification for devoting scarce resources to these new developments. The second part of the work, Part II, sets out a classification system which may be used to gain an understanding of the different dimensions of social accounting which are currently in use or are potentially useful. The classification system, if accepted, would allow accounting researchers to identify common themes, to evaluate the literature in preparation for further developments, and to make connections between different forms of social accounting.

Taken together the two parts provide reasons for investigating the content of social accounting and a view of developmental perspectives which may lead towards implementation.

Part I considers three avenues appearing in the literature, each of which may be used to provide a justification for devoting resources to social accounting. The three routes are, empirical research into the possible connection between social accounting disclosures and higher earnings or higher share prices for investors; a justification through moral agency and a social contract between business and society; and finally, by reference to a radical paradigm. The latter offers a challenge to the accepted views of property ownership and power relationships within capitalist society. The three routes towards justification of interest in social accounting are set down in chapters two to four inclusive. Chapter five summarises Part I.

Part II deals with the classification of work which could be broadly described as social accounting. The proposed classification structure uses five categories; social responsibility accounting, total impact accounting, socio-economic accounting, social indicators accounting and societal accounting. Definitions and examples are provided in each case. The

discussion of these categories occupies chapters six to twelve inclusive; and summary of Part II is given in chapter thirteen.

The conclusion offered in chapter fourteen reviews the development of social accounting up to the present time and considers likely future changes in reporting practices.

Arguments in favour of the development of a more socially relevant accounting, and the various efforts to develop specific forms of social accounting disclosures, have both been examined in the literature but not in association with each other. It may be argued, therefore, that the contents of the thesis make an original contribution to knowledge of this developing field.

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CHAPTER ONE

1.00 Introduction

This thesis presents arguments in favour of the expenditure of resources on additional disclosures in both the private and public sectors, together with a system of organising the additional reports and other forms of accountability statements. The study is evolutionary rather than revolutionary and envisages the gradual development of a more socially relevant accounting which, on the whole, is guided by the basic principles of current Anglo-American accounting. The objective of the overall thesis is to enable a more socially relevant accounting to be developed, operationalised, practiced and taught within our basic accounting framework.

The history of accounting and record keeping may be traced for over 6,000 years. From the clay tablet records of the Mesopotamians¹ through the government-centred accounting systems of the Chou dynasty,² temple and estate records of the Greeks and Romans³ to the charge and discharge activities of Manorial Accounting,⁴ accounting of various types contributed to the smooth functioning of society (i.e. to social welfare) in the ancient world and up to the middle ages. The advent of modern record keeping systems in the Italian states, so ably publicised by Pacioli,⁵ required a particular level of societal development as well as the incentive of trade.⁶

-
1. Keister, O.R., "The Mechanics of Mesopotamian Record-keeping", The National Association of Accountants Bulletin (February 1965) pp.18-24.
 2. Fu, P., "Governmental Accounting in China During the Chou Dynasty (1122 B.C. to 256 B.C.)", Journal of Accounting Research, Vol.9 No.1 (Spring 1971).
 3. Chatfield, M., A History of Accounting Thought, (Kreiger, New York, 1977).
 4. Goldberg, L., "The Development of Accounting", in Gibson, C.T., Meredith, G.G. and Peterson, R., (Eds) Accounting Concepts Readings (Cassell, Melbourne, 1971) pp. 4-37.
 5. Pacioli, L., Summa de Arithmetica Geometria, Proportione et Proportionalita (Venice, 1494) as cited by Goldberg, op.cit., p.12.
 6. Littleton, A.C., "The Antecedents of Double-Entry Bookkeeping", in Littleton, A.C., (Ed) Accounting Evolution to 1900 [1933] (Russell and Russell, New York, 1966) pp.13-21.

Despite some disagreement about whether double-entry bookkeeping may have caused the capitalistic form of societal structure,⁷ or was the product of pressures and demands within the existing society^{8,9,10,11,12} it is generally agreed that the relationship between the development of accounting and the society in which it is situated is close¹³ and continuing.

Subsequent influences on the development of accounting include the industrial revolution and the development of the railways^{14,15}, the legislative changes of the nineteenth century¹⁶, the imposition of taxation (particularly in this century) and the events of the depression years. The accounting principles and practices which evolved were subsequently codified.^{17,18,19,20} This process has continued into recent decades.^{21,22}

The relationship between accounting and the host society has been summed up very well by Goldberg:

-
7. Sombart, W., Der Moderne Kapitalismus 6th Ed., (Munich and Leipzig, 1924) Vol. 2.1, pp.118-119, as cited in Chatfield, op.cit., p.105.
 8. Yamey, B.S., "Scientific Bookkeeping and The Rise of Capitalism", The Economic History Review, Second Series Vol.1 and 2 (1949) pp.99-113.
 9. Yamey, B.S., "Accounting and the Rise of Capitalism: Further Notes on a Theme by Sombart", Journal of Accounting Research, Vol.2 No.2 (Autumn 1964) pp.117-136.
 10. Winjum, J.O., "Accounting in its Age of Stagnation", The Accounting Review, Vol. XLV No.4 (October 1970) pp.743-761.
 11. Winjum, J.O., "Accounting Research", Vol.9 No.2, (Autumn 1971) pp.333-350.
 12. Littleton, op.cit.
 13. Goldberg, op.cit.
 14. Chatfield, op.cit.
 15. Crossman, R., "The Genesis of Cost Control", The Accounting Review, Vol.28 No.4 (October 1953) pp.522-527.
 16. Baxter, W.T. and Davidson, S., (Eds) Studies in Accounting (Chapel River, Andover, 1977).
 17. Paton, W.A., Accounting Theory (Scholars Book Co., Kansas, 1973) originally published 1922.
 18. Sanders, T.H., Hatfield, H.R. and Moore, U., A Statement of Accounting Principles (AAA, Ohio, 1938).
 19. Gilman, S., Accounting Concepts of Profit (Ronald Press, New York, 1939).
 20. Paton, W.A. and Littleton, A.C., An Introduction to Corporate Accounting Standards (AAA, Ohio, 1940).
 21. Grady, P., "An Inventory of Generally Accepted Accounting Principles for Business Enterprises", Accounting Research Study No.7 (AICPA, New York, 1965).
 22. Ijiri, Y., The Foundations of Accounting Measurement (Prentice-Hall, N.J., 1967).

"This evolution has followed the pattern of response to external influences which is present in all organic development and, as in the growth of organisms, the essence of later developments has been present in earlier stages of existence. It seems most unlikely that this evolution has reached its end; as we work and study new phases of development appear to be arising. Thus, economists and statisticians are beginning to explore the social implications of the techniques of accounting and the economic influences of its concepts and procedures, and the social responsibilities of accountants are continually increasing."²³

It may be argued that Accounting is a social construct and the relationship between the stage of development of the accounting discipline and the needs and preferences of society cannot be allowed to get too far apart if accounting (and hence accountants) are not to lose the prestige that has been gained over many years. The reputation gained by accountants as preparers and auditors of company accounts and advisors to management, on both internal and external matters, is too well known to require demonstration here. To this established group of activities have been added taxation accounting, internal auditing, the control of the electronic data processing function, strategic and operational planning using mathematical models and for some, a role in government activities. Traditionally, there are a number of common themes running through most of these activities;

(i) Traditional reporting: Shareholders and management are the main parties involved in traditional external reporting and management alone is involved in internal reporting.^{24,25} A narrow view of users is adopted and constituents such as employees, consumers, and the general public are not given adequate consideration in the reporting process, although recent developments show that some accountants recognise the needs of other constituencies.^{26,27}

23. Goldberg, op.cit., pp.36-37.

24. AICPA, Objectives of Financial Statements (AICPA, New York, 1973). The Trueblood Report.

25. Financial Accounting Standards Board, Statement of Financial Accounting Concepts No. 1 Objectives of Financial Reporting by Business Enterprises (FASB, Stamford, 1978).

26. Accounting Standards Steering Committee, The Corporate Report (ICAEW, London, 1975).

27. HMSO, The Nature of Company Reports: A Consultative Document (HMSO, London, 1977) Cmd. 6888.

(ii) Reporting in monetary terms: The method of reporting traditionally uses monetary aggregates with relatively little concern for non-monetary accounting and socially related measurements.

(iii) Public costs ignored: Probably as a result of historical developments and the difficulties inherent in measurement, the measures used to capture the costs of production and operations do not take public costs into account. Only private costs are currently of interest to accountants and the management of entities. Externalities have been ignored by most accountants, including those working in academe. This situation cannot continue for much longer not least because externalities in the form of pollution and industrial waste have now reached serious proportions in many industrialised societies. 28, 29, 30, 31, 32

(iv) Role of accountant: The involvement of accountants in government (at various levels) appears generally to have been limited to the traditional management and stewardship roles. However, recently introduced management techniques are now pointing the way towards the use of efficiency and effectiveness audits and performance measurements in non-traditional areas. Accountants must be part of these developments if they are to retain or extend their influence. 33, 34, 35, 36

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28. Galbraith, J.K., The Affluent Society (Houghton Mifflin, Boston, 1958).
 29. Beams, F.A. and Fertig, P.E., "Pollution Control Through Social Cost Conversion", The Journal of Accountancy, Vol. CXXXII (November 1971) pp.37-42.
 30. Estes, R.W., "Socio-Economic Accounting and External Diseconomies", The Accounting Review, Vol. XLVII (April 1972) pp. 284-290.
 31. Tipgos, M.A., "The Accounting Aspects of Corporate Social Responsibility", Unpublished PhD (The Louisiana State University and Mechanical College, 1974).
 32. Wyler, W.E., "The Use of Accountancy in the Ecological Evaluation of Sewage Treatment Plants", Unpublished PhD (University of Northern Colorado, 1975).
 33. Glynn, J.J., "Value for Money ("Effectiveness") Auditing", Discussion Paper No.4/83 (Monash University, April 1983).
 34. Briston, R.J. and Russell, P.O., "Accounting Information and the Evaluation of Performance in the Public Sector", Unpublished paper (University of Hull, 1984).
 35. Likierman, A. and Creasey, P., "Objectives and Entitlements to Rights in Government Financial Information", Financial Accountability and Management, Vol.1 No.1 (Summer 1985) pp.33-50.
 36. Mayston, D.J., "Non-Profit Performance Indicators in the Public Sector", Financial Accountability and Management, Vol.1 No.1 (Summer 1985) pp.51-74.

These common themes are associated with value positions which are often not fully exposed. These values include a belief in private property, in the efficiency of capital markets to effect resource allocation and transfer between parties, and the limitation of government intervention to external and macro control activities. In total these values amount to support for the capitalist system of ownership of production and distribution.

The four themes identified above are subject to change. Societal changes indicate that the accounting discipline will need to change in order to maintain these traditional or equivalent relationships. Accountants will need to recognise additional interests in the form of new constituents, allow for non-monetary aggregates and different reporting styles, consider the external costs of operations and where appropriate, become involved in aspects of performance evaluation of government activities and publicly funded projects. These changes may be accomplished without discarding the traditional philosophical values underlying the accepted accounting systems although some strains may become apparent, particularly when considering the inclusion of externalities. These themes are all attributes included under the general heading of social accounting within this thesis. New constituents, non-monetary aggregates and different reporting styles are considered in chapters six to eight, the external costs of operations are examined in chapter nine, whilst the areas of more socially relevant government accounting and reporting form the substance of chapters ten and eleven. In each case an extensive literature was found to exist, although the extent to which this literature has been able to influence practice is frequently minimal. However, when compared with the total history of the development of accounting the period of development taken up by social accounting has been very short. Social accounting is often regarded as outside the general area of accounting by many academics and most practitioners, although support for some features of more socially relevant accounting has been found in a number of surveys.^{37, 38, 39, 40}

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37. Barnett, A.H. and Caldwell, J.C., "Accounting for Corporate Social Performance : A Survey", Management Accounting (November 1974) pp.23-26.
 38. Stiner, F.M. Jr., "Accountants Attitudes Towards Social Accounting", Mid Atlantic Journal of Business, Vol. 16 No. 2 (May 1978) pp.3-12.
 39. Hurley, J.F., "Social Responsibility Accounting for Businesses", Unpublished PhD Dissertation (University of Nebraska - Lincoln, December 1982).
 40. Mathews, M.R. and Gordon, I.M., "Social Responsibility Disclosures - Differential Responses as a Function of Professional Body Membership", Working Paper No. 8 (Public Interest Section, AAA, Spring 1984).

1.10 General Organisation of the Thesis

The general stance taken in this work is that there is a case to be made for social accounting as a natural extension of the existing discipline, in line with changes in societal conditions and expectations. As such, social accounting may be considered as inevitable because as society changes, demanding greater and different degrees of accountability from managers of both public and private enterprises, accounting systems must evolve to satisfy these demands. If appropriate accounting systems do not evolve, other parties will organise themselves to fill the gap and remedy the deficiency. This reaction would weaken the role and structure of accounting, perhaps with potentially serious and negative consequences for the discipline and the profession.

However, mere assertion of inevitability in the development of social accounting could be condemned as just normative theorising⁴¹ which is currently out of favour.⁴² Clearly we do not want to rely upon the sort of arguments that produced the following rebuke:

"Until recently, accounting theory largely consisted of a set of competing a priori arguments about the relative merits of alternative accounting measurements".⁴³

However, for some potential developments it is difficult to provide a case which is not at least partially normative.

This point is considered by Gray, Owen and Maunders in relation to what they have termed corporate social reporting. They state that:

"The normative deductive theories attempt to answer the questions: 'How well does accounting practice satisfy objective X?' (e.g. users' needs), or 'How might accounting practice be improved in order to satisfy objective X?' They are thus more

41. Tilley, I., "Accounting as a Scientific Endeavour: Some Questions the American Theorists Tend to Leave Unanswered", Accounting and Business Research, Vols. 1-2 (1970-1972) p.68.

42. Henderson, S., and Peirson, B., Financial Accounting Theory: Its Nature and Development (Longman Cheshire, Melbourne, 1983) p.47.

43. American Accounting Association, "Report of the Committee on Accounting Theory Construction and Verification", Supplement to the Accounting Review Vol.46 (1971) p.77.

evaluative and are deduced from both our empirical knowledge of accounting practice and from some objective held for the accounting activity. As a result of being goal/objective - oriented, the normative - deductive theories are claimed to be more value-laden than the inductive theories in that they start from a value-judgement such as 'accounting activity should satisfy users' needs'.⁴⁴

This study is mainly normative-deductive although in places reference is made to empirical work where an understanding of the present state of social accounting is required.

A case has to be made which justifies the development of social accounting (including the costs imposed on shareholders, customers, taxpayers and other parties). After justifying the concern with new forms of accounting and establishing the case for social accounting it is necessary to consider the organisation and administration of the practical aspects, since accounting theories cannot be meaningful if divorced from a practical context. Consequently this thesis is divided into two parts to coincide with the arguments put forward above.

Part I deals with justifications for the interest shown in social accounting. These are divided into three groups and covered in chapters two to four. The first form of justification is to provide information of value to shareholders and financial markets. In other words, social accounting disclosures have information content and can affect the prices of securities in share markets. The second justification is by means of a philosophical argument resting on the social contract between business and society and recognised by business ethicists. The notion of a social contract is used to argue the case for wider disclosure of socially related information to the general public and employees, rather than only to shareholders and capital markets. This section provides some interesting features not commonly found in the accounting literature. Similar arguments can be made in respect of citizens and government bodies. Indeed the origin of the social contract lies in the relationship between the

⁴⁴. Gray, R., Owen, D. and Maunders, K., Corporate Social Reporting : Accounting and Accountability (Prentice Hall, London, 1986) p.65 (original emphasis).

government and the governed. The application of the social contract approach is complicated by the cultural differences which exist between national and sub-national groups. The considerable evidence for the existence and importance of cultural effects in accounting is considered at this point, together with the importance of these developments for socially relevant accounting.

The third justification for social accounting research and development rests upon a radical paradigm. Social structures are seen as exploitative; society consists of one social group oppressing another social group. There is seen to be a need for radical political change which, some argue, may be assisted by developments in social accounting. It is contended in this thesis, that many of the arguments found in the literature of the radical paradigm are likely to be dysfunctional, in the search for a means to encourage the acceptance and development of a more socially relevant accounting. This point is emphasised by showing that there is a basic lack of congruence between the radical paradigm and the political condition of Anglo-American society. The fundamental value-systems of accountants would be violated by the radical paradigm. However, there is a place for radical paradigms in research and education, particularly to ensure that accounting does keep pace with the remainder of society. The three sets of justificatory arguments are summarised in chapter five.

Part II outlines the development of social accounting across a wide spectrum. The dimensions covered include private and public sectors, the short, medium and long terms and the use of financial and non-financial measurements. The five classifications used to facilitate consideration are social responsibility accounting, total impact accounting, socio-economic accounting, social indicators accounting and societal accounting. Each is considered separately in chapters six to twelve. The literature relating to each area is considered together with likely future developments. Unlike most attempts to evaluate the literature related to social accounting this thesis considers both private and public sectors.

The final chapters conclude by summarising the work of Part II, by examining the area covered by the entire thesis and by noting likely future developments in the field. Chapter thirteen provides a summary of Part II and chapter fourteen offers a conclusion to the whole work including an indication of some of the areas where future research is needed.

1.20 Original Contribution

The original contribution of this thesis is considered to be threefold. Firstly, the association and development of the justificatory arguments has not appeared in the literature in its entirety although each part has been developed separately by different authors. Secondly, the classification section has not appeared in the same coherent association although several features have appeared separately in the literature. Thirdly, such detailed justifications, classifications and developmental features have not previously been associated together in the literature.

The overall contribution made by the thesis lies in providing arguments to justify the development and implementation of many aspects of social accounting which would meet the deficiencies perceived in the traditional model referred to on pp.4-5 above.

1.30 General Philosophical Position Adopted

One of the features of the radical literature is that scholars are urged to make clear their philosophical positions in order that their contributions may be fully evaluated. This imperative is accepted and consequently it must be stated that this thesis is based upon existing socio-economic conditions of a managed mixed economy and is evolutionary rather than revolutionary in orientation. It is argued that a more socially relevant accounting may be justified and should be implemented, not to radically change society, but to modify and improve our present system, by including measurement and reporting relationships which are currently excluded.

1.40 Developing the Justificatory Arguments: Part I

The history of the development of social accounting is of uncertain length. Wartick and Cochran⁴⁵ suggest that Bowen⁴⁶ may have been a decisive influence, at least so far as businessmen are concerned, although they draw

45. Wartick, S.L. and Cochran, P.L., "The Evolution of the Corporate Social Performance Model", Academy of Management Review, Vol.10 No.4 (1985) pp.758-769.

46. Bowen, H.R., Social Responsibilities of the Businessman (Harper and Row, New York, 1953).

attention to earlier works cited by Heald⁴⁷ and Eberstadt⁴⁸. The exact origins are probably not of major importance to this discussion, which will centre upon the period from about 1970 when reviewing the majority of the literature.

A number of early writers in the area of social accounting attempted to establish a need for the development of this sub-discipline. Davis⁴⁹ presented the cases for and against the involvement of business in matters of social responsibility, a process which he regarded as inevitable.⁵⁰ Prakash provided a framework within which corporate social performance may be analysed.⁵¹ Spicer compared and contrasted classical, managerial and activist views of social performance.⁵² Other attempts to examine the notion of corporate social responsibility have included Fitch⁵³, Dalton and Cosier⁵⁴, and Lawrence.⁵⁵ References to public interest matters and the accounting profession can be found in Neubauer⁵⁶, Zeisel and Estes⁵⁷ and Skousen⁵⁸.

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47. Heald, M., The Social Responsibilities of Business, Company, Community, 1900-1960 (Case Western University press, Cleveland, 1970).
 48. Eberstadt, N., "What history tells us about corporate responsibilities", Business and Society Review Vol.7 (1973) pp.76-81.
 49. Davis, K., "The Case for and Against Business Assumption of Social Responsibilities", Academy of Management Journal, Vol.16 No.2 (1973) pp.312-322.
 50. Davis, K., "Social Responsibility is Inevitable", California Management Review, Vol.XIX, (1976) pp.14-20.
 51. Prakash, S.S., "Dimensions of Corporate Social Performance: An Analytical Framework", California Management Review, Vol.XVII No.3 (1975) pp.58-64.
 52. Spicer, B.H., "Accounting for Corporate Social Performance: Some Problems and Issues", Journal of Contemporary Business (Winter 1978) pp.151-170.
 53. Fitch, H.G., "Achieving Corporate Social Responsibility", Academy of Management Review (January 1976) pp.38-46.
 54. Dalton, R. and Cosier, R.A., "The Four Faces of Social Responsibility", Business Horizons (May-June 1982) pp.19-27.
 55. Lawrence, M., "Social Responsibility: How Companies Become Involved in Their Communities", Personnel Journal (July 1982) pp.502-510.
 56. Neubauer, J.C., "The Accounting Aid Society", The Journal of Accountancy (May 1971) pp.55-59.
 57. Zeisel, G and Estes, R.W., "Accounting and Public Service", The Accounting Review Vol.LIV No.2 (April 1979) pp.402-408.
 58. Skousen, C.R., "Public Interest Accounting: A Look at the Issues", Accounting, Organizations and Society Vol.7 No.1 (1982) pp.79-85.

During the 1970's a series of reports by committees of the American Accounting Association dealt with measures of effectiveness for social programmes,⁵⁹ environmental effects of organisational behaviour,⁶⁰ human resource accounting,⁶¹ the measurement of social costs,⁶² accounting for social performance,⁶³ and social costs.⁶⁴ This activity reflected the social climate of the period and the position of the U.S. economy which could afford additional accounting reports. The National Association of Accountants (NAA) also set up a committee to look at accounting for corporate social performance. The Committee reported in February and September 1974.^{65, 66}

Perhaps as a result of the greater maturity of the subject area it is now quite common for advocates of social accounting and its many variants to make two (often implicit) assumptions. These are, first, that revised systems of accounting are desirable, justified and would fill a demonstrated need and second, that the reader knows what these newer forms of accounting are. After studying the literature it is clear that neither assumption should really be made. The first assumption, that the various forms of social accounting are desirable, justified and fill a demonstrated need, is examined in the first part of the thesis. The author has addressed the other assumption, that of attempting an explication of what

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- 59. American Accounting Association, "Report of the Committee on Measures of Effectiveness for Social Programs", The Accounting Review, Supplement to Vol.47 (1972) pp.336-396.
 - 60. American Accounting Association, "Report of the Committee on Environmental Effects of Organizational Behavior", The Accounting Review, Supplement to Vol.48 (1973) pp.72-119.
 - 61. American Accounting Association, "Report of the Committee on Human Resource Accounting", The Accounting Review, Supplement to Vol.47 (1973) pp.98-113.
 - 62. American Accounting Association, "Report of the Committee on the Measurement of Social Costs", The Accounting Review, Supplement to Vol.49 (1974) pp.98-113.
 - 63. American Accounting Association, "Report of the Committee on Accounting for Social Performance", The Accounting Review, Supplement to Vol.51 (1976) pp.38-69.
 - 64. American Accounting Association, "Report of the Committee on Social Costs", The Accounting Review, Supplement to Vol.50 (1975) pp.50-89.
 - 65. National Association of Accountants, "Report of the Committee on Accounting for Corporate Social Performance", Management Accounting, (February 1974) pp.39-41.
 - 66. National Association of Accountants, "Report of the Committee on Accounting for Corporate Social Performance", Management Accounting, (September 1974) pp.59-60.

constitutes social accounting, in a number of places^{67, 68, 69}. Whilst this explanation serves to indicate the extent of the subject matter,⁷⁰ there may be several other explanations.

Three broad groups of arguments are examined to justify the use of scarce resources in further accounting disclosures. These are market related, socially related and radically related arguments. Market related arguments are used to advance the case for additional disclosures on the basis that shareholders and creditors will benefit through a more responsive market, influenced by the information content intrinsic in the disclosures. This aspect of the problem is discussed in chapter two and consists of the review of a number of market studies which seek to associate social responsibility disclosures with changes in earnings or share prices.

Socially related arguments are used where additional disclosures would be made to establish the moral nature of the corporation, to satisfy the implicit social contract between business and society and to legitimate the organisation in the eyes of the public. In this case the groups for whom the information is intended include employees, customers, the general public and government agencies. Shareholders and creditors may also find this information of benefit but the primary motivation would seem not to be directed at those groups.

Radically related arguments are those put forward by critical theorists who believe in a different model for society including the role of accounting. As previously stated, the basis of this thesis is evolutionary rather than revolutionary. Nevertheless, it is appropriate to note the important literature of the radical theorists which informs the work of those less inclined to the radical view.

Hopper and Powell⁷¹ have provided a system of paradigms, for use in classifying management accounting research, based upon that of Burrell and

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- 67. Mathews, M.R., "A Suggested Organization for Social Accounting Research", Working Paper No.5, (Public Interest Section, AAA, 1983).
 - 68. Mathews, M.R., "A Suggested Classification for Social Accounting Research", Journal of Accounting and Public Policy, (Fall 1984).
 - 69. Mathews, M.R., "Towards a More Socially Relevant Accounting", Occasional Paper No.51 (Faculty of Business, Massey University, 1984).
 - 70. In the widest sense the above classification includes - public and private sector, long and short term, monetary and non-monetary, quantitative and qualitative disclosures.
 - 71. Hopper, T. and Powell, A., "Making Sense of Research into the Organizational and Social Aspects of Management Accounting: A Review of its Underlying Assumptions", Journal of Management Studies, Vol.22 No.5 (September 1985) pp.429-465.

Morgan.⁷² It has been argued that this structure could be used to provide a framework within which the justificatory arguments of Part I could be mounted.⁷³ However, although the functional-structural paradigm and the market related arguments are largely coincidental, and the radical position articulated by the critical theorists fits into the radical paradigm, the interpretive paradigm and the socially related justificatory arguments do not associate well. Furthermore, it may be argued that the justificatory arguments set out in later chapters are compelling enough to stand outside of any framework designed for other purposes.

1.50 Chapter Summary

This introductory chapter has set out briefly the relationship between the development of accounting over a lengthy period of time, in response to societal needs and changes. The position of accounting as a social construct means that changes in society should logically lead to developments in accounting and reporting.

A number of the limitations of current accounting systems were identified including, the restriction of most reporting to shareholders, reliance on the use of only monetary measurement, the exclusion of externalities, and the need to extend modern accounting developments into the government and non-profit areas.

The general organisation of the thesis and the philosophical position adopted were reviewed. The work is evolutionary rather than revolutionary, normative-deductive in nature, and concerned with two main themes. These are justifying the devotion of resources to new developments such as social accounting and providing a structure or classification whereby the area known as social accounting may be more clearly understood. The author has devoted a considerable amount of time to the furtherance of social accounting as an expansion of the existing discipline of accounting, as evidenced by the contributions to the literature shown as Appendix I. This thesis is based upon two of the areas studied.

⁷². Burrell, G. and Morgan, G., Sociological Paradigms and Organisational Analysis (Heinemann, London, 1979).

⁷³. Mathews, M.R., "Towards Multiple Justifications for Social Accounting and Strategies for Acceptance", Working Paper No.11 (Public Interest Section, American Accounting Association, Spring 1985).

PART I

JUSTIFYING THE EXPENDITURE OF SCARCE RESOURCES
ON SOCIAL ACCOUNTING DISCLOSURES

CHAPTER TWO2.00 Market Related Justifications: The Association of Social Accounting Disclosures With a Free Market System2.10 Introduction

Proponents of a free market system of economic exchange normally argue against the imposition of social responsibility requirements on corporations. Furthermore, any assumption of social responsibility objectives by the management of corporations would be regarded by some as an improper use of shareholders funds. It is usual in these cases to quote a number of economists, from Adam Smith to Friedman, on the benefits of the 'invisible hand' in the maximisation of aggregate social satisfaction through the use of an open market system. For example Friedman objects to the notion that corporate officers have moral responsibilities:

"It shows a fundamental misconception of the character and nature of a free economy. In such an economy, there is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud".⁷⁴

There are two deficiencies in the view put forward by Friedman. Firstly, there is no such thing as a free economy since all presently operating economic systems have constraints on freedom of action. Secondly, it must be recognised that the 'rules of the game' will vary between time periods and economic situations. If the 'rules of the game' includes the existing legal framework, then it might be argued that a Friedmanite approach to corporate management would probably result in greater government intervention, the opposite of what is desired by the advocates of a free market approach.

In contrast to the Friedmanite position, there are a number of arguments which may be advanced in support of at least some social responsibility (and hence social accounting) by corporations in a relatively free market system. These are;

⁷⁴. Friedman, M., Capitalism and Freedom, (University of Chicago Press, Chicago, 1962) p.133.

(i) a free market will be more efficient if more information is available to participants,

(ii) empirical research has demonstrated that a measure of social responsibility by management may correlate with higher corporate income, and

(iii) there is some evidence that share prices may be influenced by the social responsibility disclosures of corporations.

The first argument may affect all market participants. The others directly concern the welfare of shareholders to whom management have a stewardship reporting relationship. These positions, relating to general disclosure, corporate income and shareholder wealth, are discussed in the remainder of this chapter.

It should be noted that the discussion in this is not concerned with rights, duties, obligations or any other moral concern.

2.20 Increasing the Flow of Information to the Market

The increased quantity of information envisaged by those advocating social accounting, could serve to make the market more efficient. The conditions necessary for the (unattainable) perfect market include perfect information, that is, all participants know everything at the same time. Furthermore there is no cost to the information, is which costless to the recipient. If the modern Friedmanite free market is to approximate the ideal of perfect competition, then the more information that is generally available, the more efficient the market should be. This approach, together with legal/stewardship arguments, can be applied to the financial disclosures required of all corporations.

The advocates of social responsibility accounting, one form of social accounting, argue for increased financial/non-financial, quantitative and qualitative disclosures in respect of employment practices, environmental impact, product safety, energy usage, and community relations. All of which may be relevant to interested parties such as employees, customers, regulatory bodies, shareholders and debtholders, as well as potential members of these groups.

The majority of the information referred to so far has been internal to the firm. There is another class of disclosures called externalities which, although more difficult to measure and value, have a considerable potential for changing market behaviour. Externalities, such as pollution, mean that private costs are being allowed to cross into the public domain. These costs are, therefore, not being included in the total cost of the goods or services. In most firms the cost of production bears some relationship to the desired selling price and selling price affects demand for the product (and vice versa) through the market. Consequently, a failure to capture all of the manufacturing costs results in a lower total cost and may lead to a lower price and greater quantity sold in the market place. This may not matter, but on the other hand, if the externality which leads to the lower cost (because it is not counted) is going to cause environmental damage, then the consumer is gaining a lower priced product at the expense of the whole of society (both consumers and non-consumers). From this perspective a free market for securities cannot function properly in the absence of additional accounting measurements and disclosures because resource allocation is disrupted. Firms with higher pollution costs to society may currently have higher returns to investors and vice versa, leading to a diversion of resources as a result of differential reporting.

Arguments against the increase in information flow appear to rest on the grounds of confidentiality and the cost of the information. Confidentiality arguments are concerned with the opportunities which competitors allegedly have to discover more about the organisation than they knew already. This is a weak argument since the disclosures are of material which would be known to most competitors if the market place is working well. The cost argument may have more merit, although, as demonstrated in the next section, the cost of the information may be considered as an investment. Although encouraging efficiency in the market place was not one of their main points Ramanathan and Schreuder have referred to:

"The ultimate aim of CSAR [Corporate Social Accounting and Reporting] is not to weaken the corporate and/or market system, as many opponents of its development seem to think, but to strengthen these systems by making them more inclusive".⁷⁵

2.30 The Relationship Between Social Responsibility Accounting Disclosures and Market Performance

The relationship between social accounting disclosures in annual reports and measures of market performance has been examined in a number of studies. The results have been mixed with some researchers, for example Bowman and Haire, establishing an interesting positive relationship between the two variables.⁷⁶ Other studies have found no relationship, or even a negative correlation. Exhibits 1 to 5, which are modelled on a survey article by Arlow and Gannon, provide a summary of much of the relevant research.⁷⁷

EXHIBIT 1 Choice of social responsibility measure

Method	Studies
1. Subjective ratings of corporation performance	Parket and Eilbirt [1975] Sturdivant and Ginter [1977]
2. Quasi-objective ratings based on annual report content or structural analysis	Bowman and Haire [1975] Vance [1975] Alexander and Bucholz [1978] Ingram [1978] Abbott and Monsen [1979]
3. Pollution measures as reported by companies themselves	Belkaoui [1976] Mahapatra [1984]
4. Pollution measures as reported by parties other than the companies	Fogler and Nutt [1975] Spicer [1978] Stevens [1982] Shane and Spicer [1983] Freedman and Stagliano [1984]

⁷⁵. Ramanathan, K.V. and Schreuder, H., "The Case for Corporate Social Reporting: A Macro Perspective", a paper presented at a Workshop on accounting in a changing social and political environment, Brussels (December 1982) p.15.

⁷⁶. Bowman, E.H. and Haire, M., "A Strategic Posture Toward Corporate Social Responsibility", California Management Review, Vol. XVIII No.2 (1975) pp.49-58.

⁷⁷. Arlow, P. and Gannon, M., "Social Responsiveness, Corporate Structure and Economic Performance", Academy of Management Review, Vol.7 No.2 (1982) pp.235-241.

All the studies making up the market studies part of the social accounting literature attempt to relate some measure of social responsibility to measures of market performance. The choice of a measure of social responsibility varies widely as shown in Exhibit 1.

Each of the four groups are reported separately as Exhibits 2 to 5 respectively. A reasonable amount of detail is provided, sufficient to identify the main features of each study and the results obtained. The format of these tables is taken from a survey by Arlow and Gannon but has been extended beyond the date of their article.

EXHIBIT 2
Studies using subjective ratings of corporate performance

1. Parket and Eilbirt (1975)	80 firms in 1971 Forbes Roster of Biggest Corporations.	Author's judgement	NI NI as a percent of sales NI as a percent of shareholders equity. EPS.	Socially responsible firms (80) have greater median values on all dimensions compared to 1 Fortune 500 list.
2. Sturdivant and Ginter (1977)	28 corporations in 1975 Fortune 500	Moskowitz's ratings of best or worst, and authors' rating of honorable mention.	Growth in EPS relative to industry average 1967-74.	Best and honorable mention have significant higher growth in EPS than worst.

It can be seen that the outcome of these studies suggests a positive relationship between the subjective rating of the social responsibility performance of the corporation and the market measures.^{78, 79}

Sturdivant and Ginter examined empirically the connection between the performance of organisations, on both traditional (earnings per share) and corporate social responsiveness bases and the attitudes of management. This work was reported in 1977. The corporations selected came from the list of those cited by Moskowitz as 'best' or 'worst' in terms of social performance. A third group of 'honourable mention' companies was added to give a range of three groups. There were eighteen, twenty nine and twenty firms in each group respectively.

⁷⁸. Parket, I.R. and Eilbirt, H., "Social Responsibility: The Underlying Factors", Business Horizons, Vol.18 No.4 (1975) pp.5-10.

⁷⁹. Sturdivant, F.D. and Ginter, J.L., "Corporate Social Responsiveness: Management Attitudes and Economic Performance", California Management Review, Vol.XIX No.3 (Spring 1977) pp.30-39.

A management attitude survey instrument was developed and tested. Factor analysis showed significant differences between the responses by managers of corporations in the various groups. The performance characteristics of corporations, over a ten year period, compared to the industry average, was set against the social performance rating and the test results showed no difference between 'best' and 'honourable mention' firms. However, statistically significant differences were obtained at the 0.01 level between 'best' and 'worst' and 'honourable mention' and 'worst' performers.

Sturdivant and Ginter concluded:

"While the findings certainly will not support the argument that socially responsive companies will always outperform less responsive firms in the long run, there is evidence that, in general the responsively managed firms will enjoy better economic performance. It would be simple minded, at best, to argue a one-on-one cause-effect relationship. However, it would appear that a case can be made for an association between responsiveness to social issues and the ability to respond effectively to traditional business challenges".⁸⁰

Exhibit 3 repeats the same general approach but utilises measures of social responsibility performance which appear to be more objective although still relying on judgement to a considerable extent.

⁸⁰. Sturdivant and Ginter, op.cit., p.38.

EXHIBIT 3**Studies using quasi-objective ratings based upon
annual reports or structural analysis**

1. Bowman and Haire (1975)	82 firms in food processing in 1973 Moody's Industrial Manual.	Percent of prose in annual report on social responsibility.	Mean or Median ROE 1968-72 or 1969-73.	Both mean and median ROE higher for firms with some discussion than none. Medium mention firms have significantly greater median ROE than either high or low mention.
2. Vance (1975)	45 and 50 major corporations.	Ratings by students and executives in 1972 Business and Society Review.	Per share stock price 1/1/75 as percent 1/1/74 price.	Average ratings of both groups negatively correlated with 1974 stock market performance.
3. Alexander and Bucholz (1978)	41 firms from Vance (1975)	Same as Vance (1975)	Risk adjusted ROE 1970-74 and 1971-73.	No significant relationships.
4. Abbott and Monwen (1979)	450 corporations in 1975 Fortune 500.	Social Involvement Disclosure Scale (Number of social action disclosures in annual reports).	Total returns to investors 1964-74.	No meaningful difference in total returns to investors for high and low involvement firms.
3. Ingram (1978)	287 Fortune 500 Companies (1970-1976)	SRA Disclosures Annual Reports	Computat Price Dividends Earnings Tape	Information content of firms social responsibility disclosures conditional upon market segment rather than a general cross section of firms.

In a 1975 study Bowman and Haire investigated the association between social responsibility disclosures and shareholder benefit in the form of increased income to the organisation. The search for a relationship between these two variables was directed towards the development of a strategic posture by management.

The sample consisted of eighty-two annual reports of food-processing companies for 1973. The return on equity figure used was an average of the period 1969-73 (in a few cases 1968-72) taken from Moody's or Standard and Poor's published indices. The surrogate measure for social responsibility was the proportion of prose devoted to social responsibility in the annual report. This measure was investigated by comparing the disclosure of social responsibility items, by companies accepted by critics as socially responsible, with the performance of a random sample of companies. The results of this test showed the measure to be capable of separating these companies into two groups on the basis of social responsibility.

Using the proportional measure of social responsibility items reported as an indication of social responsibility, Bowman and Haire found a statistically significant relationship when associated with income. A medium ranking, on a scale of low-medium-high, for social responsibility

disclosures was associated with the highest return on equity (using the previous five years).

The authors were most concerned to avoid unintended interpretations of their work:

"We are reporting an association of two measures; we are not implying a directional causal relationship. It does not follow, simply, from these data, that more discussion of corporate responsibility (and inferentially, on the basis of our tests of the measure, more activity in this area) causes greater profits. At the same time, it is perfectly clear that more corporate social responsibility is not associated with less profits".⁸¹

The association is explained in terms of the type of management involved. Social responsibility accounting disclosures are;

"... a signal of the presence of a style of management that extends broadly across the entire business function and leads to more profitable operation".⁸²

Unfortunately, the position is more complex than reported by Bowman and Haire since other studies do not report comparable findings.

Ingram extended the range of social responsibility measures used to include environmental, fair business, personnel, community and product. The results were only significant when the sample of firms was partitioned into segments. The associations were of a limited nature since:

"Apparently, combining the segments... washes out the effects of the disclosures on security returns".⁸³

81. *ibid.*, p.52.

82. *ibid.*, p.54.

83. Ingram, R.W., "An Investigation of the Information Content of (Certain) Social Responsibility Disclosures", Journal of Accounting Research, Vol.16 No.2 (Autumn 1978) p.283.

The influence of the market segment is particularly important:

"These findings suggest that it may be important to evaluate information content by analyzing the impact of the signals on market segments (or segments identified by firm-specific characteristics), rather than on a general cross-section of firms".⁸⁴

The results set out in table 3 show considerable variation, with Bowman and Haire [1975] showing a positive relationship especially for medium social responsibility rated companies and Ingram [1978] showing positive results when using a market segment approach. However, the other contributors found either no relationship or a negative relationship. It should be noted that a negative relationship still demonstrates information content to market participants.

Exhibit 4 shows the results of studies which have used pollution related measures supplied by the companies themselves.

EXHIBIT 4
Pollution measures as reported by companies

1. Belkaoui (1976)	two groups of 50 US Corporations from different industries	Pollution control expenses at least 1% of sales plus control group	monthly closing stock prices 12 months before and after disclosures Standard and Poor 500	substantial but temporary positive effect on stock market prices for companies disclosing pollution expenditures.
2. Mahapatra (1984)	67 firms from six industries 60 firms as control group (1967-68)	Expenditure on pollution control	Compustat PDE tape	Pollution control expenditure and high profitability not positively associated. Expenditures for pollution control do not automatically lead to higher market returns.

Belkaoui⁸⁵ found some short term increases in share prices as a result of the disclosure of pollution expenditure:

⁸⁴. loc.cit.

⁸⁵. Belkaoui, A., "The Impact of the Disclosure of the Environmental Effects of Organizational Behaviour on the Market", Financial Management (Winter 1976) pp.26-31.

"In general, this study refutes the suggestion that the worst offenders in the reporting of social costs will be rewarded more in the capital market. In fact, on the basis of these results, managers may be advised to allocate a proportion of their resources to pollution control and to report these expenditures to the stockholders".⁸⁶

Mahapatra demonstrated that the 'ethical investor' was not active at the time this study was undertaken, since the results are consistent with the existence of a 'rational economic investor':

"The conclusion is that the investors view pollution control expenditures, legally or voluntary, as a drain on resources which could have been invested profitably, and do not 'reward' the companies for socially responsible behaviour. Thus an average investor is not an 'ethical investor' and industries and investors left to themselves do not have any incentive to spend for pollution and manifest socially desirable behaviour".⁸⁷

The next group of studies are perhaps the most important in the series. They are generally more recent, employing greater degrees of sophistication in the analysis and have a uniform basis, namely, the reports on pollution activities of industries and companies supplied by outside parties.

⁸⁶. *ibid.*, p.30.

⁸⁷. Mahapatra, S., "Investor Reaction to a Corporate Social Accounting", Journal of Business Finance and Accounting, Vol.11 No.1 (Spring 1984) p.37.

EXHIBIT 5
Pollution Measures not reported by corporations

1. Folger and Nutt (1975)	Nine paper companies.	Government pollution indices.	P/E ratio. Mutual fund purchases (in dollars). Common stock price. (Data from selected quarters 1971-72).	No positive relationships.
2. Spicer (1978)	18 firms in pulp and paper industry 1968-73	CEP studies of pollution control developed into a pollution index, related to productive capacity and plant numbers.	Profitability Size Total risk Systematic risk Price/Earnings Ratio	Companies with better pollution control records tend to have higher profitability, larger size, lower total risks, lower systematic risks and higher Price/Earnings Ratio than companies with poorer pollution control records. Relatively short-lived phenomena.
3. Stevens (1982)	54 firms in four industries subject to CEP reports	CEP Pollution reports	Effect of disclosure (through CEP reports of pollution status of corporation) on Earnings per Share	Cumulative average excess returns for portfolios of firms with high estimated expenditures for pollution control are consistently below the returns for portfolios of firms with low estimated expenditure.
4. Shane and Spicer (1983)	72 firms in four industry areas	CEP pollution reports	share prices over a six day period before and after publication of CEP reports	Sample firms large, negative abnormal returns on two days immediately prior to newspaper reports of release of CEP studies. Low rankings associated with more negative returns on publication.
5. Freedman and Staglin (1984)	27 weaving finishing and knitting mills (1984)	OSHA dust disclosures through SEC 10K reports.	Stock Price movements.	Disclosures on impact of new cotton dust emission standard do not have significant information content for investors.

Results may be described as mixed since whilst Fogler and Nutt did not find any positive relationships, Spicer found that for a limited sample of pulp and paper companies the disclosures by an outside body (the Council on Economic Priorities) were associated with profitability, size of company, total risk, systematic risk and price-earnings. All associations were in the direction favouring disclosure. In other words, shareholders would benefit if companies worked towards better pollution control records. This study was criticised by Chen and Metcalf, on a number of grounds. In his reply Spicer stressed the findings as associations between variables and not caused relationships.

Fogler and Nutt⁸⁸ in a further 1975 study drew inspiration from the 1971

⁸⁸. Fogler, H.R. and Nutt, F., "a Note on Social Responsibility and Stock Valuation", Academy of Management Journal (March 1975) pp.155-160.

study of Bragdon and Marlin⁸⁹ who investigated the relationship between good pollution control and profitability for 17 companies. Fogler and Nutt used a reduced sample of nine companies (in order to obtain stable earnings histories and avoid the results of merger activity). They developed indices of pollution and related these to quarterly price-earnings ratios from March 1971 to March 1972. No significant relationship was found for either short or long run performance. The citing of major paper producers as polluters did not affect the market price of their stock. The following explanation may still be important:

"Yet, the results are in agreement with the expected results in an efficient capital market composed of a majority of 'return' conscious investors - that is, while socially conscious investors might sell the shares of less socially responsible companies, such sales would be viewed as bargains by the return conscious investors".⁹⁰

The reaction of the investing public is likely to vary from time to time and from place to place in line with evolving social preferences.

Spicer⁹¹ found that for a limited sample of pulp and paper companies the disclosures made by an outside body (the Council on Economic Priorities) were associated with profitability, size of company, total risk, systematic risk and price-earnings ratio. All associations were in the direction favouring disclosure. In other words, shareholders would benefit if companies worked towards better pollution control records.

The Spicer study was criticised by Chen and Metcalf⁹² on a number of methodological grounds. In his reply Spicer noted that:

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- 89. Bragdon, J.H. and Marlin, J.A.T., "Is Pollution Profitable?", a paper presented at the 1971 Annual Meeting of the Financial Management Association.
 - 90. Fogler and Nutt, op.cit., p.159.
 - 91. Spicer, B.H., "Investors, Corporate Social Performance and Information Disclosure: An Empirical Study", The Accounting Review, Vol.LIII No.1 (January 1978) pp.94-111.
 - 92. Chen, K.H. and Metcalf, R.W., "The Relationship Between Pollution Control Record and Financial Indicators Revisited", The Accounting Review (January 1980) pp.168-177.

"My primary objective was to determine whether a perceived association between corporate social performance ... and the investment worth of corporations' securities ... was borne out by observation".⁹³

Stevens found that 'high' estimated expenditures for pollution control were associated with lower cumulative average excess returns, in comparison to 'low' estimated expenditures where the cumulative average excess returns were not reduced.

The disclosures had information content but present shareholders would suffer a loss of capital value as the information became available to the market. In the longer term, however, shareholders should benefit:

"The data examined in this study represent a source of information which may have been previously unavailable to the market. As such, its publication could provide meaningful data for assessing the timing and magnitude of future cash flows".⁹⁴

Shane and Spicer demonstrated that the use of externally produced and publicised environmental information may have an effect on the share prices of polluting corporations, when the disclosures are first made. In a similar manner to Stevens, this study demonstrated the information effect of the disclosures, although to the short term discomfort of the present shareholders. However, given the importance of the efficient market and the manner in which the marginal investor reacts, it is interesting that:

"The reported results also are consistent with investors using the information released by the CEP to discriminate between companies with different pollution-control performance records".⁹⁵

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93. Spicer, B.H., "The Relationship Between Pollution Control Record and Financial Indicators Revisited: Further Comment", The Accounting Review, Vol.LV No.1 (January 1980) p.178.
94. Stevens, W.P., "Market Reaction to Corporate Environmental Performance", a paper presented at the annual convention AAA, San Diego (1982) p.25.
95. Shane, P.B. and Spicer, B.H., "Market Response to Environmental Information Produced Outside the Firm", The Accounting Review, Vol.LVIII, No.3 (July 1985) p.535.

In the longer term this should achieve environmental goals of lower pollution levels.

Freedman and Stagliano found no evidence of information content since there was no positive or negative association of share prices with the particular pollution disclosures under investigation. The authors offer a number of possible explanations including an efficient market which had already impounded the information before it was disclosed or a sub-market for particular firms that was not efficient at all.⁹⁶

2.31 Other Approaches

Belkaoui⁹⁷ conducted an experiment to determine the impact of socio-economic statements on an investment decision. Sets of accounts were prepared in which the treatment of pollution costs was varied from conventional (i.e. none) to footnote exposure of pollution control costs to full disclosure of the costs and their effects. Professional groups of accountants and bankers were then asked to 'invest' in the two companies (i.e. to vary the portfolio holdings held). The investment strategy was also varied between investing for capital gains or for income.

In conclusion Belkaoui reported that:

"The findings attest to the general relevance of socio-economic accounting information for the bankers under any investment strategy, and for the accountants only under an investment strategy focussing on capital gains"⁹⁸

and went on to make the important point that:

"The significant interaction effects between the three examined factors provide a warning about any generalisations to be derived from a similar field experiment. In other words the informational content

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- ⁹⁶. Freedman, M. and Stagliano, A.J., "The Market Impact of Social Information: Investor Reaction to Public Disclosure", Proceedings, to the AAA Mid Atlantic Regional Meeting, Baltimore (April 1984) p.318.
- ⁹⁷. Belkaoui, A., "The Impact of Socio-Economic Accounting Statements on the Investment Decision: An Empirical Study", Accounting, Organizations and Society, Vol.5 No.3 (1980) pp.263-283.
- ⁹⁸. Belkaoui, op.cit., p.280.

of any new information, e.g., socio-economic accounting information, is to be ascertained in terms of its relations to relevant environmental variables".⁹⁹

2.30 Chapter Summary

This chapter has considered the results of a number of studies which were aimed at establishing the existence of any relationship between social responsibility accounting disclosures and measures of market performance. Although the findings from a number of studies are conflicting it may be argued that the overall weight lies towards the view that disclosure of non-traditional information does have utility for shareholders and the security market because information content is established regardless of the direction in which share prices move. Those advocating a market related approach to justifying additional expenditure on disclosures should derive support from these studies because a concrete relationship between disclosure and share price effect is being established. This concrete relationship would assist managers and investors to make more rational economic decisions.

The market related studies, as applied to accounting research, are concerned with the traditional relationship of managers and investors. Any justification for social accounting which falls within this approach must establish that shareholders could make better decisions and benefit economically in the long term from having the additional information. The results of the studies reviewed (a reasonable cross-section of the total number available) suggest that the issue is complicated by intervening variables and the need to employ sophisticated techniques in order to establish statistically significant relationships. The relationships detected are characterised as associations and not caused relationships.

Although potential benefits may have been indicated by the work outlined in this chapter the associated costs have not been determined and, therefore, a cost benefit interrelationship cannot be established. Nevertheless, it is argued that social accounting may be justified to shareholders as an aid to market efficiency and improved decision making.

⁹⁹. loc.cit.

CHAPTER THREE

3.00 SOCIALLY RELATED ARGUMENTS: SOCIAL ACCOUNTING/ THE SOCIAL CONTRACT AND ORGANISATIONAL LEGITIMACY

3.10 Introduction

The arguments in favour of forms of social accounting, which may be used in relation to market studies, will not necessarily be relevant to a wider audience. Sharemarket reaction to social accounting disclosures is far less meaningful to non-equity holders, employees, customers and the general public, to name several of the possible interested parties. To interest these constituencies in social accounting it is necessary to look at the basic functioning of industrial and commercial activities, and to enter the moral debate surrounding the notions of a social contract between business and society. This approach to justifying the expenditure of resources on social accounting falls within the socially related arguments in the schema employed here.

The notion of the social contract has been expressed by Shocker and Sethi as follows:

"Any social institution - and business is no exception - operates in society via a social contract, expressed or implied, whereby its survival and growth are based on:

- (1) the delivery of some socially desirable ends to society in general, and
- (2) the distribution of economic, social, or political benefits to groups from which it derives its power.

In a dynamic society, neither the sources of institutional power nor the needs for its services are permanent. Therefore, an institution must constantly meet the twin tests of legitimacy and

relevance by demonstrating that society requires its services and that the groups benefitting from its rewards have society's approval".¹⁰⁰

Although it is not difficult to find references to the need for corporations to be accountable to a wider audience,^{101,102} the moral position of the corporation is much more difficult to establish. Furthermore, it is only after satisfactorily answering questions about the moral position of the corporation that the notion of a social contract can be considered.

3.20 The Moral Position of the Corporation

Several contrary positions may be examined in particular the moral person view and the structural restraint view. The most simplistic approach is the moral person view which argues that corporations are moral persons and therefore are moral agents. Consequently corporations are morally responsible for their actions. There are clearly difficulties in establishing this case since corporations cannot act intentionally by themselves or exercise the normal functions of persons.

It has been argued that corporations cannot be held to be morally at fault because they are not metaphysical persons.^{103,104} Manning has made the point that if corporations are moral persons they have to be treated fairly which may have an effect on the ability of society to find fault with the actions of the corporation:

"If we accept the view that moral persons have a right to be treated fairly and corporations are moral persons, then they have the right to be treated fairly. The right to be treated fairly

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100. Shocker, A.D. and Sethi, S.P., "An Approach to Incorporating Social Preferences in Developing Corporate Action Strategies", in S.P. Sethi (Ed) The Unstable Ground: Corporate Social Policy in a Dynamic Society (Melville, California, 1974) p.67.
101. Nader, R., The Consumer and Corporate Accountability (Harcourt Brace Jovanovich, New York, 1973).
102. Galbraith, J.K., Economics and the Public Purpose (Andre Deutch, London, 1974).
103. French, P., "The Corporation as a Moral Person", American Philosophical Quarterly, Vol.16 (1979) pp.207-215.
104. Ladd, J., "Morality and the Ideal of Rationality in Formal Organizations", Monist, Vol.54 (1970) pp.488-516.

requires that we refrain from making moral fault attributions of the person who has the right, unless we can show that certain conditions are met."¹⁰⁵

These conditions are utilitarian, not fairness, and are associated with determining causal effect, compensation for those who may suffer injury and prevention of any recurrence of the action which caused the breach in the first place.¹⁰⁶

The opposite view is that corporations cannot be moral agents of any kind, because their actions are controlled by their structures and, therefore, moral freedom often cannot be exercised. If taken to an extreme position the structural restraint view would mean that the only way in which the actions of corporations could be controlled (in any moral sense) would be by extensive legislation. However, corporations vary considerably in size, type and public stance on many issues. These differences allow the specification of certain conditions by which a corporation may qualify as a moral agent.

Donaldson outlined these conditions as follows:

"In order to qualify as a moral agent, a corporation would need to embody a process of moral decision-making. On the basis of our previous discussion, this process seems to require, at a minimum:

1. The capacity to use moral reasons in decision-making,
2. The capacity of the decision-making process to control not only overt corporate acts, but also the structure of policies and rules".¹⁰⁷

Corporations may qualify as moral agents (but not moral persons) if they subscribe to the conditions above. If they do not, then there would seem

¹⁰⁵. Manning, R.C., "Corporate Responsibility and Corporate Personhood", Journal of Business Ethics, Vol.3 (1984) pp.79.

¹⁰⁶. ibid., pp.82-84.

¹⁰⁷. Donaldson, T., Corporations and Morality (Prentice-Hall, N.J., 1982) p.30.

to be support for a structural restraint view (which in turn may mean legislative control and restraint).

Donaldson suggests that one of the conditions for qualifying as a corporation (presumably as a legal entity) should be that an organisation meets the conditions of moral agency. This view is reinforced by the rights and responsibilities which corporations possess and which point to conditions of moral agency being associated with conditions of corporate status.¹⁰⁸

Corporate rights are granted in most developed industrial countries and include limited liability for the shareholders, and unlimited life, the ability to sue and be sued, and contractual rights as of a natural person for the corporation. In return, the responsibilities owed by corporations to the rest of society (including other corporations) include a number of direct and indirect moral obligations.¹⁰⁹

Direct obligations are specified explicitly and involve shareholders, employees, suppliers and customers. Indirect obligations are not specified formally and may involve parties with whom the corporation has no direct contractual relationship. These may include competitors, local communities and the general public.¹¹⁰

Breaches of direct obligations are usually identifiable and may be settled through the legal system or by adverse publicity leading to legislation, if not through the specified terms of the contract. It is the indirect obligations that cause problems, because they are not readily identifiable, may not be agreed between the parties to disputes and frequently give rise to measurement and valuation problems, even where their existence can be agreed upon. The indirect obligations give rise to the notion of a social contract between business and society.

¹⁰⁸. *ibid.*, pp.31-32.

¹⁰⁹. An excellent discussion of the parallel issue of organisational legitimacy is available in - Lindblom, C.K., "The Concept of Organizational Legitimacy and its Implications for Corporate Social Responsibility Disclosure", Working Paper No.7 (Public Interest Section, AAA, 1983), which is discussed later in this chapter.

¹¹⁰. It should be noted that some parties will be included in both sets of obligations. For example, employees may be both customers and members of the general public as well as employees.

3.30 The Social Contract for Business

In a speech to the Harvard Business School in 1969, Henry Ford II is reported to have stated:

"The terms of the contract between industry and society are changing ... Now we are being asked to serve a wider range of human values and to accept an obligation to members of the public with whom we have no commercial transactions."¹¹¹

The notion of a social contract originated in political philosophy, where it is argued that society in general accepts an overriding control over individual freedoms in order to achieve collective goals. However, a social contract underlies the arrangement and the failure to generate goal satisfying outcomes may justify a revolt on the part of the general society. Consequently:

"The political social contract provides a clue for understanding the contract for business. If the political contract serves as a justification for the existence of the state, then the business contract by parity of reasoning should serve as the justification for the existence of the corporation".¹¹²

The majority of business consists of productive organisations and the social contract would exist between these corporations and individual members of society. Society (as a collection of individuals) provides productive organisations with their legal standing and attributes and the authority to own and use land and natural resources and to hire employees. Organisations draw on community resources and outputs waste products to the general environment. It may be argued that the productive organisation has no inherent rights to these goods and in order to allow the productive organisation to exist, society would expect benefits which exceed the costs (detriments) of so doing.

The operations of productive organisations should benefit consumers and employees (taking these categories in the widest sense). Consumers (and

¹¹¹. Donaldson, op.cit., p.36.

¹¹². Donaldson, op.cit., p.37.

potential consumers) will benefit if productive organisations; maximise the advantages of specialisation, have greater capacities for decision making than individuals do, have greater opportunities to aggregate capital and use it to obtain high level technology, generate distribution channels and are able to compensate individuals for faulty products. Employees will benefit from these organisations if they; earn more than they would working for themselves, have the strength of the organisation behind them (i.e. not exposed as an individual would be) and receive benefits in terms of long-term earnings and security they would not otherwise have.

There are a number of potential drawbacks to the operation of the social contract, where customers and employees may both be affected by non-performance. Social costs for consumers include the depletion of natural resources and increasing environmental pollution. A less easily recognised, but equally important cost occurs because of the;

"... diffusion of individual moral responsibility which sometimes occurs in productive organizations".¹¹³

Employees may feel responsible to their superiors within the hierarchy, but not to the end user of the product or service. In addition productive organisations accumulate power as well as wealth, which enables them to interact with government in a manner which may be to the disadvantage of the ordinary consumer. The generation and enhancement of monopoly power may result from these interactions. Employees may suffer as a result of their work in productive organisations, including alienation and an inability (in the case of lower level employees), to control their working conditions. Furthermore, in some cases the design of the productive system may lead to monotony and de-humanization of workers (the line production of motor vehicles is the classic example used in the literature).

In addition to the maximisation of the benefits and the minimisation of the problems outlined above, the social contract between productive organisations and the individual member of society would include an element of justice. As Donaldson expressed the issue;

¹¹³. *ibid.*, p.50.

"... the application of the concept of justice to productive organizations appears to imply that productive organizations avoid deception or fraud, that they show respect for their workers as human beings, and that they avoid any practice that systematically worsens the situation of a given group in society".¹¹⁴

Some theorists would argue that the 'ideal' in respect of employees and the social contract would be a different relationship belonging in the next section dealing with the radical approach. However, the moral agency of the corporation and the social contract between a productive organisation and the general public, does not contain any imperative towards a change in the management or structure of the organisation, beyond those necessary to reach the state of a moral agent and to maintain the contract. The problems of industrial democracy will not be considered any further in this section of the thesis.

3.31 The Study of Business Ethics

The study of business ethics may be seen as the practical expression of philosophical discussions on the social contract between business and society. Henderson explored the differences between lawyers and business executives on their attitudes to business ethics which is defined as:

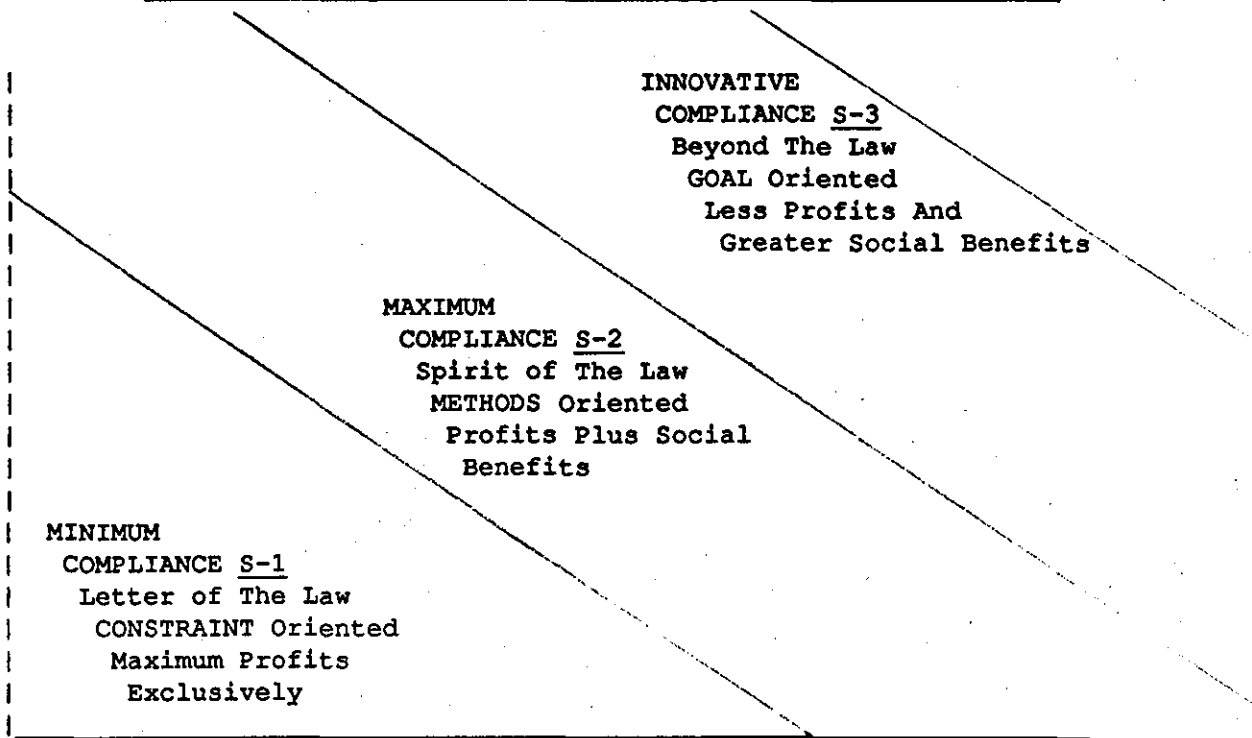
"Business ethics is the continuing process of re-defining the goals and rules of business activity."¹¹⁵

Henderson has offered a "spectrum of ethicality" to enable corporate executives to clarify and defend the ethical postures they select.¹¹⁶ This is given as Exhibit 6.

¹¹⁴. *ibid.*, p.53, original emphasis.

¹¹⁵. Henderson, V.E., "The Spectrum of Ethicality", Journal of Business Ethics, Vol.3 (1984) p.163.

¹¹⁶. *ibid.*, p.169.

EXHIBIT 6**A Graphic Conceptualisation of the Spectrum of Ethicality**

Source: Henderson op.cit.

Grcic has put forward the notion of consumer and employee representatives on the boards of directors of public corporations to promote corporate moral behaviour.¹¹⁷

3.32 The Corporate Report and the Social Contract

The most significant (for the present discussion) of the conceptual frameworks produced by committees and working groups on behalf of major accounting organisations was the Corporate Report. This document was published in 1975 on behalf of the Institute of Chartered Accountants in England and Wales. The significance of this report for the socially related argument and this chapter is that there is an underlying philosophical position very similar to that of the social contract of business with society.

Although the social contract basis is not formally acknowledged it appears to underlie such statements as are identified in the basic philosophy of the report, key points of which are reproduced below.

¹¹⁷. Grcic, J.M., "Democratic Capitalism : Developing a Conscience for the Corporation", Journal of Business Ethics, Vol.4 (1985) pp.145-150.

- 1.1 Our basic approach has been that corporate reports should seek to satisfy, as far as possible, the information needs of users; they should be useful.
- 1.2 In our view there is an implicit responsibility to report publicly (whether or not required by law or regulation) incumbent on every economic entity whose size or format renders it significant.
- 1.3 We consider the responsibility to report publicly (referred to later as public accountability) is separate from and broader than the legal obligation to report and arises from the custodial role played in the community by economic entities.
- 1.4 The reporting responsibility we identify is an all-purpose one, intended for the general information of all users outside those charged with the control and management of the organisation.
- 1.5 In this context public accountability does not imply more than the responsibility to provide general purpose information.
- 1.6 Corporate reports are the primary means by which the management of an entity is able to fulfil its reporting responsibility by demonstrating how resources with which it has been entrusted have been used.
- 1.8 Users of corporate reports we define as those having a reasonable right to information concerning the reporting entity.

1.9 The groups we identify as having a reasonable right to information and whose information needs should be recognised by corporate reports are:- The equity investor group, the loan creditor groups, the employee group, the analyst-advisor group, the business contact group, the government, the public."¹¹⁸

3.33 Concluding Comments on the Social Contract

The productive organisation exists to satisfy certain social interests:

"Productive organizations ... are subject to moral evaluations which transcend the boundaries of the political systems that contain them. The underlying function of all such organizations from the standpoint of society is to enhance social welfare through satisfying consumer and worker interests, while at the same time remaining within the bounds of justice. When they fail to live up to these expectations they are deserving of moral criticism.—When an organization, in the United States or elsewhere, manufactures a product that is inherently dangerous, or when it pushes its employees beyond reasonable limits, it deserves moral condemnation : the organization has failed to live up to a hypothetical contract - a contract between itself and society."¹¹⁹

If this view is accepted it logically follows that any techniques of data collection, analysis and disclosure that enables society to evaluate the performance of the organisation is not only legitimate but desirable. Which brings into focus the socially related arguments for social accounting and shows how social accounting may be justified as the provision of additional information to audiences other than shareholders and creditors.

3.40 Organisational Legitimacy

An alternative view of the relationship between the corporation and society is offered by Lindblom.¹²⁰ The social contract is an abstraction, a device

¹¹⁸. The Corporate Report, op.cit., pp.15-17.

¹¹⁹. Donaldson, op.cit., p.57.

¹²⁰. Lindblom, op.cit.

useful to the analysis of the role of the corporation in relation to society. The social contract is ongoing and continually renewable, furthermore, the basis of a collectivity is one of a voluntary association by individuals, any or all of whom may decide to leave the collectivity if their needs are not receiving due attention.

Lindblom used the societal context (US) of the challenge to established patterns of responsibility and control during the 1960's and 1970's to analyse the notion of corporate social responsibility. In particular the civil rights movements which changed the societal conditions to be recognised by business, the anti-Vietnam war movement which argued that corporations should recognise their responsibility to society generally and not just to follow established legal positions, and the environmental movement which stressed the technological imperative and quality of life factors. Lindblom has suggested that there has been a change from "not doing harm" to "doing something positive" in terms of the expectations of society towards business. At the same time changes in the organisational structure of developed societies are making responses to changing societal needs more difficult and time consuming.

"One interpretation of the corporate responsibility challenges of the mid 1960's to the mid 1970's might be that, as the environmental conditions of the original contract changed, the public expected business to be responsive to those changes. While business had undergone a structural change which made it less responsive to the public".¹²¹

Lindblom went on to argue that the social contract leads logically to the concept of organisational legitimacy which has been defined in the following manner:

¹²¹. *ibid.*, p.15.

"Organizations seek to establish congruence between the social values associated with or implied by their activities and the norms of acceptable behaviour in the larger social system of which they are a part. Insofar as these two value systems are congruent we can speak of organizational legitimacy. When an actual or potential disparity exists between the two value systems, there will exist a threat to organizational legitimacy".¹²²

It is argued that neither value in exchange nor the observation of legal nicities will establish organisational legitimacy. This quality can only come from a reference to the norms and values of society. The notion of organisational legitimacy is not an absolute or a constant, because organisations differ considerably in their visibility to society as a whole and some are more heavily dependent than others upon social and political support.

Organisational legitimacy has been summarised by Lindblom in the following terms:

- "1. Legitimacy is not synonymous with economic success or legality.
2. Legitimacy is determined to exist when the organization goals, output, and methods of operation are in conformance with societal norms and values.
3. Legitimacy challenges are related to the size of the organization and to the amount of social and political support it receives with the more visible being most likely to be challenged.
4. Legitimacy challenges may involve legal, political or social sanctions".¹²³

The implications which the notion of organisational legitimacy has for the management of the corporation includes better communication with society.

¹²². Dowling, J. and Pfeffer, J., "Organizational Legitimacy: Social Values and Organizational Behaviour", Pacific Sociological Review (January 1975) p.122. As cited by Lindblom pp. 15-16.

¹²³. Lindblom, op.cit., pp.20-21.

This enlarged accounting or accountability may be essential for the continued existence of the corporation in its present form:

"To the extent, then, that the accounting profession wishes to continue to provide relevant information to external users, the legitimacy challenges serve as an indication of a need for change in the accounting function".¹²⁴

The arguments put forward by Lindblom connect the philosophical propositions of the social contract as put forward by Donaldson, with the need for corporate social disclosures, through the notion of organisational legitimacy. This particular justification, which is pragmatic, may be used with managers who do not necessarily accept the social contract arguments but recognise the need to influence the general public through added disclosures. Such decision makers may accept the need for social accounting even though it may be for the 'wrong' reasons.

Because Part II of this thesis includes reference to non-traditional government reporting, it would be useful to look at the citizen's rights to information about government trading and related activities, as provided by Likierman and Creasey.¹²⁵

3.50 Rights to Governmental Financial Information

Likierman and Creasey discussed the rights of individuals to obtain information about government performance noting initially that there are differences between the private and public sectors. In the private sector information is disclosed after the end of the trading period. In the public sector outsiders would like to influence the decision making process in advance of the period of activity perhaps for their own advantage. In addition, once government information is involved there are questions related to the proper availability of information, which may be covered by a written constitution. Finally, there is always the issue of the national interest to consider.

¹²⁴. *ibid.*, pp.30-31.

¹²⁵. Likierman, A. and Creasey, P., "Objectives and Entitlements to Rights in Government Financial Information", Financial Accountability and Management, Vol.1 No.1 (Summer 1985) pp.33-50.

Likierman and Creasy approached the issue of rights to information through the use of statements of objectives, which assert or imply rights, and statements of needs which may imply that needs give entitlements to rights. There are also direct statements about rights. Statements of objectives which assert or imply rights include studies and reports such as the Trueblood Report with a basic objective of providing information useful for making economic decisions. However, an accounting framework may be seen by some as an unsatisfactory delineation of rights and a higher constitutional or legal authority sought. Statements of needs implying rights are criticised by Likierman and Creasey because the needs are seldom defined. They point to the difficulties inherent in establishing what the needs of users are at any particular time; a problem which is not peculiar to the public sector.

Statements which refer explicitly to rights are probably the most difficult to deal with because of an inherent conflict between a 'right to know' and a 'right to privacy'. In a section entitled "The Basis of Claims to Rights" the authors considered a number of philosophical arguments with respect to the natural or moral rights of man and the rights of the individual in relation to the state. A distinction is made between positive rights and natural rights, those recognised by law and those based upon moral rights (for example just deserts or justice). Those people asserting their 'rights to information' are basing their claims on natural rights, since any others will be positive and enforceable at law. However, the provision of local or positive rights to information will vary:

"Thus it could be said that while natural law cannot be codified and carries no sanctions for non-compliance, it cannot be regarded as meaningless because it cannot be codified or enforced in the same way as positive law. Claims on the basis of natural rights for information cannot be dismissed out of hand".¹²⁶

The authors noted that to refer to the law in respect of rights is really looking towards justice:

¹²⁶. *ibid.*, p.45.

"Thus in speaking of rights, we are not talking of lawful entitlement, but of just entitlement. But that entitlement is not necessarily automatic in the case of moral rights as it is in the case of rights based on law".¹²⁷

In conclusion, Likierman and Creasey noted that many of the statements about rights for individuals (or groups of individuals) need to be treated with caution. This is particularly the case when dealing with government information and disclosures. The rights of parties need to be reconciled with the rights of other parties and of national security. Although the intended audiences are often unclear the exercise of claims on moral grounds may lead to legal rights.

There appear to be a number of philosophical differences between the position of the corporation in respect of the society in which it is situated and that of government within that society. The discussion above suggests that under some circumstances the needs of society as a whole (the national interest) may outweigh those of individuals or groups. There is less indication in the literature that the same restraint can be placed on individual and group rights in respect of corporations and the social contract or organizational legitimacy. However, a consideration of contrary views in the literature is given below.

3.60 Arguments against the Social Contract Principle

The review which follows is drawn from a recent monograph which looks at corporate social responsibility from a corporate viewpoint.¹²⁸ Den Uyl stated that the corporate social responsibility debate is primarily a moral issue and that demands for change are directed at;

"... the very values inherent in a market oriented system of production, and that makes these challenges moral challenges".¹²⁹

The lack of rigour of the moral debate is deplored, and also what Den Uyl perceives as attempts to avoid ethical issues completely. A structure of

¹²⁷. loc.cit.

¹²⁸. Den Uyl, D.J., "The New Crusaders: The Corporate Social Responsibility Debate", Studies in Social Philosophy and Policy No.5 (Social Philosophy and Policy Center, Bowling Green State University, Ohio, 1984).

¹²⁹. *ibid.*, p.3.

analysis is provided, within which theories about the morality of corporate social responsibility may be discussed.¹³⁰ The theories are:

- i) The Fundamentalist theory (also called traditionalist or classical) made up of
 - a) Functional theory (Levitt),
 - b) Individual Agreement theory (Friedman).
- ii) Social Permission theory which is made up of
 - a) Constituency theory
 - b) Legal Framework theory
 - c) Corporate Citizenship theory

The Social Permission school acts in opposition to the Fundamentalist school. The social permission approach is based upon the notion that corporation management must deal fairly with all constituents (Constituency theory), be good citizens (Citizenship theory) and recognise that corporations are creations of the state (Legal Framework theory).

3.61 The Functional Theory

The functional theory, which seeks to avoid dominance by any one section of society, is described by Den Uyl as conceiving of the debate in morally neutral or amoral terms.

"It cannot be denied that the position has great short term pragmatic and rhetorical appeal. But in the final analysis, the functional view cannot offer any criteria for distinguishing the legitimate claim or offer any form of consistent guidance".¹³¹

and

"Ultimately the argument suggests that the whole issue of CSR reduces to a power game - with business currently on the losing end of the struggle."¹³²

130. *ibid.*, p.8 ff.

131. *ibid.*, p.10.

132. *ibid.*, p.12.

It was argued that because the functional theory is pragmatic and amoral there is no place for it in the discussion. There is no discussion of organisational legitimacy by Den Uyl, perhaps because the approach appears to be equivalent in moral status to the functional theory.

3.62 Social Permission Theory

In examining social permission theory Den Uyl rejected the arguments of those who see the corporation as created by the state (legal framework theory) although conceding that a modified view "the social creation approach" would make the theory stronger. His major attack was reserved for Donaldson and the social contract approach. The notion that the corporation is permitted to operate by society is rejected unless the corporation is only a trustee for societal resources and not as owner of those resources. Donaldson, it was argued, began with an assumption;

"... that individuals (corporate or otherwise) are entitled to their goals and holdings only so long as those goals or holdings service the interests of society".¹³³

Den Uyl rejected this view (which he appears to have exaggerated) as oppressive. In taking up this position he ignored many of the limitations which both individuals and corporations face when relating to the authority of the modern state. For example, restrictions on transfers of property (sales of goods) to foreign states, transfers of funds subject to exchange control regulations and the compulsory purchase of property (land) by the state for roads, airports and similar purposes, are all features of modern society.

In dealing with the legal framework theory (also referred to as the concession theory) Den Uyl did not refer to any of the specific features which make companies unique in our society. The creation of the corporation as a legal person with unlimited life, limited liability for shareholders, differential tax rates and tax concessions, and the enormous economic and political power of the corporation. This is not surprising since his main purpose was to provide a moral basis for supporting a Friedmanite view through the individual agreement theory.

¹³³. *ibid.*, p.17.

3.63 Individual Agreement Theory

Den Uyl referred to the strong moral commitment represented by the sanctity of the contract, which he saw as the basis of the frequently quoted statement by Friedman that the only responsibility of business is to make profits subject to remaining within the legal framework. The individual agreement theory argues that shareholders want to maximise profits from their investment:

"Thus, the corporation is not an end in itself, nor is it an essentially public institution despite the large numbers of persons who may be associated with it ... It would seem to follow, then, that corporations are not creatures of the state, but are, rather, private institutions whose existence is recognised by law".¹³⁴

This philosophical position would seem to be central to Den Uyl's argument and also to the fears of many people that corporations are often so large and influential that they are not under the control or influence of individual investors but of less accountable managers. Den Uyl argued that Friedman's position does not prevent corporations pursuing moral goals provided that profitability is not reduced. He went on to discuss his theory of individual rights, the dichotomy of morality and profits and finally put forward guidelines for responsible behaviour.

3.64 A Theory of Individual Rights

In addressing the theory of individual rights Den Uyl was concerned with the rights of an individual to be free from coercion by other individuals. His exposition concentrated upon the 'negative' aspects of inter-relationships because 'positive' aspects are seen as placing individuals on different levels in their dealings with one another:

"Individuals must refrain from crossing the boundaries of others. 'Positive' rights, which require the taking of the resources of some for the benefit of others, treat the ends of some persons as more significant than the ends of others. Indeed, it is virtually impossible to maintain a system of individual rights if one admits the existence of positive rights..."¹³⁵

¹³⁴. *ibid.*, pp.22-23.

¹³⁵. *ibid.*, pp.25-26.

This treatment of individual rights assumed equality of all individual characteristics not only in legal and contractual relationships, but economic and political bargaining power as well. Den Uyl assumed throughout his explanation that corporate social responsibility involves the diminution of the benefits of one group to satisfy the perceived needs of another group. This approach ignores the inter-relationships which may persist between groups. For example employees may also be shareholders as well. Unequal power positions render the argument that individual rights must be treated equally untenable in modern society.

3.65 The Dichotomy Between Morality and Profits

The dichotomy between morality and profits is argued to be non existent because the pursuit of profit fulfills the obligation that management has towards the owners of the business. Provided that profitability is not reduced, management may engage in actions which are considered to be socially responsible. Indeed, if a strategy of socially responsible behaviour is likely to increase profitability in the long run, it is implied that management are morally obliged to follow that strategy. However, Den Uyl did not accept the implication because he argued that:

"A manager need not, however, see his or her moral values as either overriding or subservient to profitability. It is possible for a person to regard his moral values both as goods that have value in their own right and as goods that have value because they contribute to some other end".¹³⁶

After a discussion of ends and means based upon Aristotle, it was concluded that:

"Moral values may enter into the management equation without necessarily detracting from the profitability of the firm (because they are part of a package of options) and without necessarily being contrary to the wishes of the owners (since the wishes of the owners are less than precise)".¹³⁷

¹³⁶. *ibid.*, p.30.

¹³⁷. *ibid.*, p.32.

However, guidelines are required so that they may be applied by managers to individual cases.

3.66 Guidelines for Responsible Behaviour

In the section entitled "Guidelines for Responsible Behaviour" Den Uyl derived three principles. The first, called the "principle of respect for individual rights", comes from the individual agreement theory outlined previously. The second, the "principle of responsible recommendation", comes from the position that the pursuit of profit is an obligation and, therefore, any recommendation which does not take this factor into account is not responsible. Finally, provided the first two primary principles are followed, then the effects of alternative courses of action on various parties should be evaluated. This is referred to as the "principle of moral consideration".

The three basic principles, it is claimed, may be used to evaluate the actions of corporations as well as their critics:

"To summarise: 1) no action should be taken which violates another's individual rights; 2) recommendations must be responsible in the sense that they do not ignore the context, purpose, and basic contractual commitments of those to whom the recommendation is made; and 3) the moral dimension of an action should always be given serious attention".¹³⁸

3.67 Unaddressed Issues

Considerable attention has been given in this chapter to the review of Den Uyl because his monograph explicitly adopts the viewpoint of a Friedmanite free market approach and attempts to support this position on moral grounds. The social permission approach (especially the social contract) is criticised and guidelines for the evaluation of social responsibility recommendations have been put forward. The value systems explored by Den Uyl are relevant to an understanding of criticisms of some aspects of social accounting (for example, the valuation of externalities by Benston) which are reported in Part II. However, a number of issues are unaddressed in the discussion leading up to the guidelines reproduced above. No reference is made to organisational legitimacy, possibly because this

¹³⁸. *ibid.*, p.35.

appears to fall into the functional theory area which is categorised by Den Uyl as amoral and consequently outside the scope of the work.

The first principle assumes that all individuals contracting with each other (and observing each others, rights) are of equal standing regardless of economic and political power, information asymmetry and wealth endowments, which are discussed in the next chapter. It is also assumed that individuals are only involved in one role at a time. In particular, positive discrimination is to be ruled out under any circumstances.

The second principle is based on a discussion of profitability and with reference to the market processes. The definition of profit, and hence profitability, is problematic. What is to be included in the calculation of profit? Which gains and losses are to be recognised at any point in time? What, if anything, should one do to capture external costs and return them to the calculus? What is the period of time with which we are concerned? The difficulties of relying upon the market are discussed, by reference to a number of authorities, in the next chapter. One does not need to be a political radical to be critical of Den Uyl in the value positions he articulates although support for his position has been given by Valone.¹³⁹

Valone noted that:

"The principal virtue of the book is the rational and open way in which the author invites debate on CSR."¹⁴⁰

and concluded:

"He points to the danger of lapsing into sermons and polemics rather than careful analyses of the economic-ethical matrix. Advocates of corporate social responsibility must appeal less to the conscience of the manager than the recognition of the ethical-social elements which condition and set the parameters of economic thinking and conduct."¹⁴¹

¹³⁹. Valone, J.C., A Review of Den Uyl, D.J., op.cit., Journal of Business Ethics, Vol.4 (1985) pp.384,408,424.

¹⁴⁰. ibid., p.408.

¹⁴¹. ibid., p.424.

Unfortunately the rational and non-ideological nature of Den Uyl's approach leads to his rejecting many of the moves to make corporations responsible for alleviating problems which are associated with their operations such as pollution and environmental protection. In this area Den Uyl rejects regulation and favours;

" ... the practical efficiency and moral superiority of market alternatives."¹⁴²

This is interesting since it is the market which cannot cope with externalities in the first place.

3.70 Moral Agency, the Social Contract, Organisational Legitimacy and Social Accounting

If it is accepted that moral agency and the social contract mean that the performance of productive organisations should be capable of assessment, then two of the questions requiring answers are how and by whom? The answer to 'how' may be found in social accounting techniques of various types which are discussed in Part II; social responsibility accounting disclosures and the measurement and valuation of externalities are two examples. The answer to 'by whom' tends to follow from the techniques employed, and social accounting techniques should preferably be manipulated by accountants who have been prepared in this specialist field.

Social accounting activity can be justified in terms of moral agency and the social contract, which form the socially related arguments in the schema used here, because the world is not viewed in the same way as it was by investors and potential investors in the previous chapter, or by the politically radical advocates in the following chapter. The participants addressed by socially related arguments include customers, employees, the general public and those affected by the indirect responsibilities of the corporation..

Organisational legitimacy may be the practical expression of the philosophical position adopted by the social permission theorists. The norms of society change slowly and organisational management must be aware

¹⁴². Den Uyl, op.cit., p.75.

of, and follow, at least some of these changes. To avoid doing so may be as damaging to the legitimacy of the organisation as a dynamic system, as allowing products to become outdated is to the market position. The philosophical positions considered thus far in this chapter can be used to justify social accounting on moral or pragmatic grounds. On moral grounds if the manager wishes to present the corporation as acting within a social contract framework, and on pragmatic grounds if organisational legitimacy is the motivating force. In the latter case the disclosures would be made not because the manager believed that constituencies were entitled to have them, but in order to satisfy a demand and legitimate the organisation with the public.

Individual agreement theory, as reviewed in this chapter, attempts to provide a philosophical basis for a relatively free market approach to economic activity and, therefore, indirectly acts to restrict any extension of accounting disclosures. There are arguments to suggest that government activities are in a different category from these of the private sector when viewed from a philosophical perspective. There may be cases where the rights to information which are supported by social permission theory (or expressed through organisational legitimacy) have no place when government information is being considered. However, this is a matter which has not attracted much attention within the social accounting literature.

3.80 The Effect of Culture on the Philosophical Bases of Social Accounting

It may be argued that the philosophical basis for social accounting is relatively strong compared to that underlying free market economics. Therefore, the socially related arguments are more appropriate than those related to market studies. However, the response of the accounting profession does not appear to follow the strength of the philosophical argument! There may be several reasons for this phenomenon including the strength of classical economics and marginalist philosophies within many economic systems, inertia, or lack of explanation and educational endeavour on the part of accounting theorists. Recent work on the effects of culture on accounting may explain why social accounting developments do not always gain the support which might be expected and also why the level of support varies both temporally and geographically.

Mueller has asked "Is Accounting Culturally Determined?"¹⁴³ and offered a number of observations of phenomena which had puzzled him over several years including; a flourishing of accounting in English language countries compared to other lingual environments particularly Romance language areas; the development of national financial standard setting bodies in spite of other pressures towards a "global village"; the observation that the product of the accounting discipline varies between a shareholder orientation, a credit orientation and at other times an orientation which serves the interests of national planners and public administrators/regulators. Mueller found the answers to some of the puzzles in a link between culture and accounting.

Burchell, Clubb and Hopwood¹⁴⁴ examined the relationship between the inception, development and apparent decline in the use of value added statements, and changes in the social and economic conditions prevailing in the United Kingdom. In their conclusion they stated that:

"We have sought to indicate how the value added event arose out of a complex interplay of institutions, issues and processes. The study of this particular accounting change has enabled us not only to move towards grounding accounting in the specific social contexts in which it operates but also to raise and discuss what we see to be some important theoretical issues which have to be faced when seeking to understand the social functioning of the accounting craft."¹⁴⁵

The cultural-accounting interface they explored was within one national culture which was changing over a period of time, rather than accounting practices in different cultures at the same time.

Perera¹⁴⁶ has considered the cultural aspects of accounting systems, particularly as they relate to developing countries. A number of

143. Mueller, G.G., "Is Accounting Culturally Determined?" a paper presented at the EIASM Workshop on Accounting and Culture, Amsterdam (June 1985).

144. Burchell, S., Clubb, C. and Hopwood, A.G., "Accounting in its Social Context: Towards a History of Value Added in the U.K.", Accounting, Organizations and Society, Vol.10 No.4 (1985) pp.381-413.

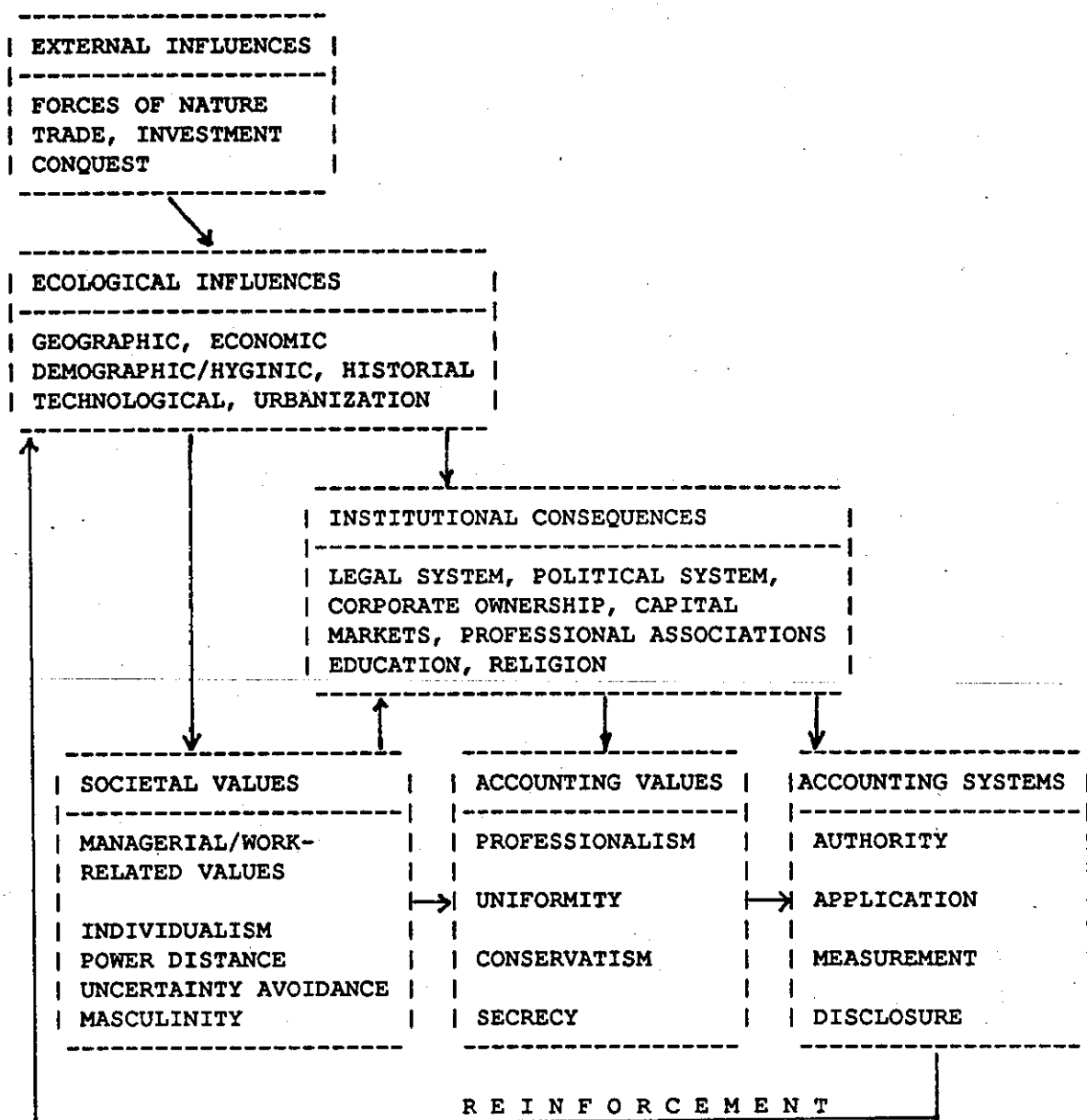
145. ibid., p.408.

146. Perera, M.H.B., "The Cultural Relativity of Accounting Systems", a seminar paper presented at the University of New South Wales (1985).

dimensions of culture were examined, specifically as they might affect accounting measurement and disclosure. Perera used the cultural dimensions put forward by Hofstede¹⁴⁷ and the international classification supplied by Gray¹⁴⁸, to develop a model of the relationship between accounting and culture, which is reproduced as Exhibit 8. Perera and Mathews have applied the model to the differences in the attention given to social accounting disclosures.¹⁴⁹ There is evidence that Anglo-American accounting systems (including those of Canada, Australia and New Zealand) have different priorities for both financial and social responsibility accounting than do Continental European countries. In particular, employee reporting has a far higher priority in European countries than amongst Anglo-American accounting systems. A number of differences are detailed by Gray, Owen and Maunders.¹⁵⁰

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147. Hofstede, G., "The Cultural Relativity of Organisational Practices and Theories", Journal of International Business Studies (Fall 1983).
148. Gray, S.J., "Cultural Influences and the International Classification of Accounting Systems", Working Paper 85-7 University of Glasgow (1985).
149. Perera, M.H.B. and Mathews, M.R., "The Interrelationship of Culture and Accounting with Particular Reference to Social Accounting", Discussion Paper No.59 (Department of Accounting and Finance, Massey University, June 1987).
150. op.cit., chapters two and three.

EXHIBIT 7
Accounting and Culture



Source: Perera, op.cit.

Gambling has argued that accounting practices are akin to magic or rituals taking place within a particular environment which makes them meaningful. These rituals are often culturally specific or anthropocentric.^{151, 152, 153}

¹⁵¹. Gambling, T.E., "Magic, Accounting and Morale", Accounting, Organizations and Society, Vol.2 No.2 (1977) pp.141-151.

¹⁵². Gambling, T.E., "Accounting for Rituals", a paper presented to the EIASM Workshop on Accounting and Culture, Amsterdam (Summer 1985).

¹⁵³. Gambling, T.E., and Karim, R.A.A., "Islam and Social Accounting", Journal of Business Finance and Accounting Vol.13 No.1 (Spring 1986) pp.39-50.

The effects of cultural differences on the philosophical bases of both social and conventional accounting are not known with precision although the general direction may be predicted. It may be hypothesised that there will be differential effects between countries and/or accounting systems and over time within any particular system.

The arguments put forward by social permission theorists and those favouring a social contract or organisational legitimacy approach, on the one hand, or individual agreement theories on the other, will be perceived differently by different groups at varying times. If this effect exists, it may account for the ebb and flow of support for social accounting. The majority of social accounting theorists and researchers work in developed countries following Anglo-American or Continental European systems and it is possible that their research may be incongruent with the national culture or the accounting sub-culture or both.

3.90 Chapter Summary

This chapter has distinguished a number of philosophical bases which underlie social accounting, together with an alternative philosophy which purports to be the basis underlying free market economic thinking. In particular the notions of the social contract and organisational legitimacy are deserving of further attention.

The important point to be made here is that the expenditure of additional resources on social accounting may be justified to shareholders and debtholders (actual and potential) through market studies and to most of the other groups in society through the socially related arguments. There may be criticism of this position from radical groups, because it contains an implicit acceptance of most of the characteristics of present societal organisation and values (with limited modifications in respect of the latter). In other words much of the status quo is maintained.¹⁵⁴

When examining the disclosure of information by government (termed Socio Economic and Social Indicators accounting in Part II) it will be necessary

¹⁵⁴. Ratliff, J.R. and Merino, B.D., "Administrative Theory Versus Interest Group Pluralism - An Analysis of Alternative Public Interest Frameworks", a paper presented at the 1983 AAA Convention, New Orleans, pp.3,7.

to bear in mind the arguments that individuals' rights to information may be in conflict with the rights of society as a whole. There may be differences between the obligation to make additional disclosures by corporations and by governments.

Recent work in the area of the effects of culture on the development of accounting suggests that there are a number of complicating factors which may assist or inhibit the acceptance of given philosophies. It has been argued that culture has a relationship with the accounting sub-culture for financial accounting and by extension that social accounting developments may be similarly affected.

CHAPTER FOUR

4.00 Social Accounting and the Radical Paradigm

4.10 Introduction

Those who would support a radical approach are critical of many aspects of current society and seek to change it. They are unlikely to support social accounting as a result of the arguments put forward in the two previous sections, although some of the concepts used in developing the moral agency view of the productive organisation may receive encouragement. A radical group will only be persuaded to take an interest in social accounting by means of arguments framed in terms of the radical paradigmatic view of society. In the last few years there have been an increasing number of contributors to this debate and several of the works are reviewed in this chapter.

In general, the radical view concludes that accounting has supported, and continues to support, a particular view of society. This view is associated with capitalistic production and marginalist economics, does not admit to problematic relationships between organisations and society and follows a positivist approach. The radical perspective of accounting as it is currently practiced is similar to that of the accounting profession with the critical difference that the radicals want to effect change, and those working within a market related field see no need for change. The radical theorists are critical of the socially related arguments used in chapter three because that work envisages a plurality of approaches, the evolution of accounting and organisational developments, and the acceptance of much of the capitalist based production and ownership systems.

The radical theorists have commented on many of the same issues as those working within the market studies and socially related fields including, the history of accounting¹⁵⁵ the development of the accounting

¹⁵⁵. Loft, A., "Towards a Critical Understanding of Accounting: The ~~Ease~~ of Cost Accounting in the U.K., 1914-1925", Accounting, Organizations and Society, Vol.11 No.2 (1986) pp.137-169. C

profession^{156, 157, 158, 159} professional ethics¹⁶⁰, conceptual frameworks and ideology^{161, 162, 163}, Accounting policy, standards and reports in a general manner, ^{164, 165, 166} research methodology^{167, 168, 169} and public interest

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156. Puxty, A.G., "Decision Usefulness in Accountancy: A Contribution to a Critical Theory of the Professions", Unpublished PhD thesis (University of Sheffield, 1984).
 157. Puxty, A.G., "Locating the Accountancy Profession in the Class Structure: Evidence from the Growth of the User Criterion for Financial Statements", a paper presented to the Interdisciplinary Perspectives on Accounting Conference, Manchester (1985).
 158. Willmott, H.C., "Serving the Public Interest: A Critical Analysis of a Professional Claim", a paper presented to the Interdisciplinary Perspectives on Accounting Conference, Manchester (1985).
 159. Willmott, H.C., "Organising the Profession: A Theoretical and Historical Examination of the Development of the Major Accountancy Bodies in the U.K.", Accounting, Organizations and Society, Vol.11 No.6 (1986) pp.555-580.
 160. Lehman, C.R., "Accounting Ethics: Surviving Survival of the Fittest", Advances in Public Interest Accounting (Forthcoming, 1987).
 161. Tinker, A.M., Merino, B.D. and Neimark, M.D., "The Normative origins of Positive Theories: Ideology and Accounting Thought", Accounting, Organizations and Society, Vol.7 No.2 (1982) pp.167-200.
 162. Laughlin, R.C. and Lowe, E.A., "The Design of Accounting Systems: Reasons for Our Ignorance", a paper presented to the Interdisciplinary Perspectives on Accounting Conference, Manchester (1985).
 163. Neimark, M.D. and Tinker, A.M., "Displacing the Corporation with Deconstructionism and Dialectics", a paper presented to the Interdisciplinary Perspectives on Accounting Conference, Manchester (1985).
 164. Merino, B.D. and Neimark, M.D., "Disclosure Regulation and Public Policy: A Socio Historical Appraisal", Journal of Accounting and Public Policy, Vol.1 (1982) pp.33-57.
 165. Cooper, D.J. and Sherer, M.J., "The Value of Corporate Accounting Reports: Arguments for a Political Economy of Accounting", Accounting, Organizations and Society, Vol.9 No.3/4 (1984) pp.207-232.
 166. Cooper, D.J., Lowe, E.A., Puxty, A.G., and Willmott, H.C., "The Regulation of Social and Economic Relations: Towards a Conceptual Framework for a Cross National Study of the Control of Accounting Policy and Practice" unpublished draft framework for an Economic and Social Research Council project "Accounting Regulation as Corporatist Control".
 167. Laughlin, R.C., "Insights into the Nature and Application of a Critical Theoretic Methodological Approach for Understanding and Changing Accounting Systems and their Organisational Contexts," a paper presented to the Interdisciplinary Perspectives on Accounting Conference, Manchester (1985).
 168. Laughlin, R.C., Lowe, E.A. and Puxty, A.G., "Designing and Operating a Course in Accounting Methodology: Philosophy, Experience and Some Preliminary Empirical Tests", British Accounting Review, Vol.18 No.1 (Spring 1986) pp.17-42.
 169. Chua, W.F., "Theoretical Considerations of and by the Real", Accounting, Organizations and Society, Vol.11 No.6 (1986) pp.583-598.

accounting.^{170, 171, 172, 173, 174, 175, 176, 177} There are also radical treatments of value for money auditing and industrial democracy which will be referred to later in the thesis.

The literature dealing with public interest accounting includes many of the issues which will be considered in Part II, such as social responsibility accounting and the internalisation of externalities, but from radical non-market and collectivist perspectives.

The work cited is only a small part of the voluminous literature produced by radical theorists and the proponents of critical theory (although including the most important contributions in the public interest accounting debate) and of these only a few items can be selected for discussion. The remainder of the chapter is divided into two main parts. Firstly, a review of several items from the radical literature, which are particularly relevant to the radical paradigm as a justification for developing different forms of accounting, and secondly, an examination of the problems which the promotion of the radical paradigm may generate for the proponents of practical social accounting.

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- 170. Tinker, A.M. (Ed) Social Accounting for Corporations (Marcus Wiener, New York, 1984).
 - 171. Lehman, C.R., "Stalemate in Corporate Social Responsibility Research", Working Paper No.3 (Public Interest Section: American Accounting Association, Spring 1983).
 - 172. Ratliff and Merino, op. cit.
 - 173. Tinker, A.M., Paper Prophets: A Social Critique of Accounting (Praeger Publishers, New York, 1985).
 - 174. Macintosh, N.B., "Accounting Reports as Ideology; The Case of IBM and the Role of Women in the Computer Workplace", a paper presented to the Interdisciplinary Perspectives on Accounting Conference, Manchester (1985).
 - 175. Lehman, C.R. and Tinker, A.M., "a Semiotic Analysis of 'The Great moving Right show': Featuring the Accounting Profession", a paper presented to the Interdisciplinary Perspectives on Accounting Conference, Manchester (1985).
 - 176. Laughlin, R.C. and Puxty, A.G., "The Socially Conditioning and Socially Conditioned Nature of Accounting: A Review and Analysis Through Tinker's 'Paper Prophets'", The British Accounting Review, Vol.18 No.1 (Spring 1986) pp.77-90.
 - 177. Hopper, T., Cooper, D.J., Lowe, E.A., Capps, T. and Mouritsen, J., "Management Control and Worker Resistance in the National Coal Board: Financial Controls in the Labour Process", in Willmott H.C. and Knights D. (Eds.) Managing the Labour Process (Gower, Aldershot, 1986).

4.20 A Consideration of Selected Items from the Radical Literature

4.21 Tinker, Merino and Neimark, 1982

Tinker, Merino and Neimark (TMN) have argued that all theories are normative, even where they are described as positive or empirical. There is no one reality 'out there' as assumed by the instrumental paradigm and all reality is problematic and negotiable. The authors use a materialist theory of accounting in which the theory may come to form part of the reality by a process of reification. The purpose of their paper becomes clearer with an exposition of the arguments against a marginalist economic view of accounting, because such a view benefits only the shareholding and managerial class, without any attempt to extend the coverage to workers or customers. An analysis of the development of value theory is given, followed by a table contrasting the marginalist and classical theories.

The authors note that accounting thought has remained committed to marginalism through an emphasis on individualism (both shareholder and organisation) and by attempts to preserve objectivity by reference to objective market prices. Thus accountants, TMN argue, avoid becoming involved in social conflict between groups and classes:

"The second emphasis in the development of accounting thought is the positioning of accounting as an impartial record of historical exchange values with the corollary that the accountant bears no responsibility for affecting expectations, decisions or ultimately the distribution of income within and between classes".¹⁷⁸

The implications for accounting and the development of research programmes appear to be that;

- (i) it is necessary to understand the normative basis of marginalism and the positive accounting approaches;

¹⁷⁸. Tinker, et.al., op.cit., p.189.

"... the normative bias that is inherent in marginalism and its positive accounting variants: a neoconservative ideological bias that encourages us to take the 'free' market and its implicit institutional apparatus as 'given'".¹⁷⁹

- (ii) radical accounting should not be construed too narrowly as 'only' accounting for trade unions and corporate accountability,
- (iii) accounting for social value in a wide sense is desirable,
- (iv) radical accounting needs to be extended into the management accounting field to investigate the effects of budgetary systems in the work place,
- (v) investigative studies are needed:

"The investigative studies, together with the general proposals for greater corporate accountability, envisage a similar role for accounting - that of an interpreter and articulator of social value, as an adjudicator in social struggles and as an instrument of social change".¹⁸⁰

- (vi) and multinational organisations need to be investigated for their effects on developing countries.

4.22 Merino and Neimark, 1982

Merino and Neimark have questioned the conventional wisdom that the 1933 and 1934 U.S. securities acts resulted in enlarged disclosure requirements. They concluded that the acts were not fundamental changes to accounting disclosure provisions, but part of an attempt to maintain the status quo in ideological, social and economic terms. A radical paradigm is adopted, because the authors speak of a contradiction between an individualistic, market-based philosophy (atomistic competition and the assumptions underlying a free market) and the realities of increased economic concentration (monopoly and oligopoly). This contradiction is presumably intensifying over time, because the conflict over accounting policy and the balance of disclosure provisions continues. The authors refer to a number of recent developments as part of the unresolved difficulties. Examples given are the different views on the degree of knowledge possessed by

¹⁷⁹. *ibid.*, p.191.

¹⁸⁰. *ibid.*, p.192.

shareholders expressed in Trueblood and SFAC 1, the reliance of some writers on the efficient markets hypothesis and a;

"... Darwinian model of competitive market regulation (by rolling back disclosure requirements)".¹⁸¹

Merino and Neimark call for consideration of;

"... substantive corporate regulation rather than the tokenism of legislation such as the securities acts".¹⁸²

presumably the substantive legislation would relate to;

"... measures of corporate performance and means of control are needed that are independent of such markets and that are sensitive to the social consequences of corporate pricing policies, worldwide employment practices, waste disposal methods, and so on".¹⁸³

The approach to regulating corporations (if they are permitted to exist) is similar to those advocating a structural restraint view.

4.23 Lehman, 1983

Lehman examined the development of social responsibility over a period from the late 1960s beginning with an attempt to define the topic area. If organisations are social as well as economic, and if there are moral considerations involved should researchers be operating in a market context? Lehman clearly had doubts since:

"Moral imperatives or quality considerations are not resolvable in an economic framework. The usual market framework cannot promote or be used to implement moral values or ensure quality of life".¹⁸⁴

181. Merino and Neimark, op.cit., p.50.

182. ibid., p.51.

183. loc.cit.

184. Lehman, op.cit., p.3.

The various forms of social permission theory as expressed through the social contract, notions of organisational legitimacy, government regulation, and social audits, are based upon a consensus or harmonious view of the nature of society. In turn, the policy recommendations (and research agenda) reflect these assumptions. Lehman considers the outcomes from a different set of assumptions which view the world as conflictual as a result of social divisions and differences. Four models are considered, "interpenetrating" "public policy" "general-market" and "financial-market".

The interpenetrating model¹⁸⁵ emphasises the degree to which corporations influence the public and are, in turn, influenced by the political, social and economic environment. Although apparently straightforward this theory does not explicitly recognise the extent to which the corporation can influence the environment as a result of economic and political power. Social responsibility reports may be intended to present only one side of selected issues ignoring other, more revealing, issues:

"Although most accounting social responsibility researchers view the corporate influence over the public's expectations as non-problematic, they do so only by ignoring a wide body of literature that describes the influences corporations have had in this regard".¹⁸⁶

Other social institutions also influence public expectations, despite a widely held view that accounting is value-free and that the public is able to react in an independent manner to each new situation. These arguments apply to the influence of the legal framework and the education system. If public expectations are conditioned by dominant groups, including corporations themselves, then;

"... the suggestion that public opinion and pressure can and will cause corporations to be socially responsible may be inappropriate".¹⁸⁷

185. Preston, L.E. and Post, J., Private Management and Public Policy (Prentice Hall, Englewood Cliffs, 1975).

186. Lehman, op.cit., p.12.

187. ibid., p.15.

The public policy model is based upon the use of the power of the state to influence company policy and decision making. The general public can influence government to act because:

"The state is a free and neutral agent in this process and has the ability to act in ways that it determines rather than are determined by corporations".¹⁸⁸

However, a section of the literature has drawn attention to the degree to which corporations, as powerful economic interests, can lobby the legislative organs and modify any direct challenges to their authority;

"... accounts suggest corporations were supportive of government regulations and laws which would monitor corporations where such regulations were necessary for the survival of the corporations (e.g. such regulations could alleviate public criticism by providing, a sometimes false, assurance that corporations would be held accountable for their actions)".¹⁸⁹

The public policy model, from the radical perspective, suffers from the same drawbacks as the interpenetrating model.

The general market model assumes that the generation of profits and the increase in value of the corporation in the market place are desired by shareholders and accepted by the general public as legitimate aims of business entities. The market is held to be efficient and the best means of achieving resource allocation. However, unequal wealth endowments affect the ability of both consumers and investors to enter markets and influence outcomes. Furthermore, the concentration of economic power leads to monopolistic and oligopolistic influences which detract from the resource allocation aspects of market performance. Many socially related activities lie outside the normal decision alternatives of management and they are not internalised into the market mechanism because they do not have a price. The radical position is that markets do not provide guidance on socially related issues, including the social responsibility of business:

¹⁸⁸. *ibid.*, p.15.

¹⁸⁹. *ibid.*, p.17.

"Additional important social issues are also ignored by those researchers who rely, particularly, on financial market participants (stock holders) to evaluate corporate activities and to achieve corporate social responsibility..."¹⁹⁰

The financial market model is based upon the premise that shareholders seek to maximise share prices and will not invest in companies whose managements are not socially responsible. Shareholders will be concerned that corporate behaviour may attract government regulation, for example action against enterprises investing in South Africa. Management will in turn be concerned to keep share prices from falling. It is also suggested that a group of ethical investors may exist and drive down selected share prices if they discover that some of their holdings are in socially non-responsible corporations. The assumption by some researchers that market mechanisms can be used to achieve corporate social responsibility is challenged by Lehman. In addition to the general problems of market information asymmetry and biased communication, it is noted that maximising share prices does not necessarily maximise shareholder utility. The existence of monopolistic and oligopolistic enterprises, which are less reliant on the market for capital requirements and the varied nature of shareholders, prevents any valid generalisations about overall shareholders' intentions. Furthermore, shareholders only represent one of a number of constituencies or audiences in society. The maximisation of share prices does not lead automatically to corporate social policies which would maximise the overall welfare of all stakeholders.

Lehman concludes that researchers do not agree on how to define corporate social responsibility because of the view of corporations as profit maximising institutions:

"Therefore, it is necessary for researchers to move beyond economic considerations, and explore defining corporate social responsibility broadly, in terms of social, moral, and quality of life considerations".¹⁹¹

¹⁹⁰. *ibid.*, p.21.

¹⁹¹. *ibid.*, p.24.

None of the models considered, Lehman suggests, can deal with these social, moral and quality of life considerations and researchers are urged to consider administrative theory:

"This theory recognises that corporations, as social institutions, affect the political process, the quality of life, moral values, economic conditions and social relationships".¹⁹²

The market cannot be employed as an indicator of efficiency because it is no longer effective as a regulator and cannot be an adjudicator of moral values. The search for social indicators as a measure of corporate social responsibility must be directed towards effects on society which are not simply market related.

4.24 Ratliff and Merino, 1983

Ratliff and Merino argued that the size and complexity of modern organisations has destroyed the regulatory effects of competition in the market-place (thus giving rise to the need for Monopolies and Restrictive Practices Legislation). Consideration needs to be given to stronger regulatory controls to counteract the failures of the market place, the inability to cope with technological change and diminishing finite resources, and asymmetrical power and wealth distributions. Accounting researchers have failed to respond:

"Instead, most of our 'social' accounting research has been constrained by researchers' adoption of traditional economic models for their analysis. The impetus has been to 'fit' public interest research into the dominant accounting research paradigm."¹⁹³

Social accounting researchers are alerted to the authors concern for the direction their discipline is taking;

"... it seems clear that it will take a concerted effort upon the part of public interest researchers to break the stranglehold that market research has on the academic research agenda".¹⁹⁴

¹⁹². *ibid.*, p.24.

¹⁹³. Ratliff and Merino, *op.cit.*, p.3.

¹⁹⁴. *loc.cit.*

Ratliff and Merino have introduced a new body of literature into the public interest area and also attempted to show that accounting policies are not value free. The administrative theory literature, which makes up an important part of their paper, is clearly a departure from the form of social organisation to which all accountants and managers (in western economies) will be accustomed:

"People, not market forces, would determine allocation of societal resources and establish socio economic objectives".¹⁹⁵

"Administrative theorists reject market regulation, they demand positive government action to counteract the power asymmetrics inherent in an oligopolistic economic structure".¹⁹⁶

Many of the arguments presented for administrative theory are similar to those already described in previous papers, and need not be repeated here. However, the alternative policies for accounting research are given clearly and may be summarised as follows:

- (i) social accounting research has been ineffective,
- (ii) social problems are fundamentally insoluble within a market framework,
- (iii) structural inequities should not be accepted by adopting Pareto optimal criteria,
- (iv) to accept the concept of net externalities would lead to the imposition of social costs on the weakest parties, and
- (v) regulation on a cost-benefit basis would not lead to a just outcome, public interest accounting researchers must be concerned with the disaggregated effects of market operations.

¹⁹⁵. *ibid.*, p.4.

¹⁹⁶. *ibid.*, pp.4-5.

The authors concluded inter alia:

"We advocate abandonment of market analysis for public interest research. We recognise that development of an alternative theoretical framework is not a short term endeavour and we do not mean to imply that we should abandon attempts to assess how contemporary accounting policies and measures affect society."¹⁹⁷

4.25 Cooper and Sherer, 1984

Cooper and Sherer have argued for a political economy of accounting to replace the existing approaches to external accounting for corporate performance. The present system of accounting, they contend, ignores aggregate social welfare because of a bias towards the private shareholder. Studies cited show that traditional accounting reports are useful to shareholders, but these studies must be evaluated against the lack of a theory of user needs. The changes in accounting policies towards disclosure (naive or knowledgeable shareholders) means the possibility of wealth redistribution between shareholding groups. The effect of such a redistribution may not lead to a more efficient capital market because;

"... understanding individual responses may be of interest in contributing to a general understanding of accounting (elaborating users and their settings); but it is unlikely that individual behaviour translates to aggregate market responses".¹⁹⁸

Cooper and Sherer suggested that the literature relating to the value of accounting reports to individual shareholders is concerned with the efficiency of the market for information rather than the efficiency of the market for securities:

¹⁹⁷. *ibid.*, p.19.

¹⁹⁸. Cooper and Sherer, *op.cit.*, p.20.

"It may well be that the empirical results indicate the private value (or otherwise) of information.... But only in the most unlikely of circumstances is it possible that capital market reactions also indicate the social value of information or have implications about the desirability of alternative accounting measures or disclosures".¹⁹⁹

The usefulness of shareholder reports as a contribution towards the efficiency of the economy as a whole is questioned, together with the use of markets as a standard by which other institutions should be judged. The authors critique both general equilibrium analysis and economic consequences analysis in much the same terms as the radical writers considered previously, before coming to their political economy of accounting approach. Political economy of accounting has three features; the recognition of power and conflict in society (affecting wealth distribution) and the logical consequences for accountants as participants, an emphasis on the specific historical and institutional environment of society and a more emancipated view of society:

"Attempts to resolve technical issues without consideration of this environment may result in an imperfect and incomplete resolution due to the acceptance of current institutions and practices".²⁰⁰

These characteristics may be reduced to three imperatives, be normative, be descriptive and be critical:

"These imperatives are intended to be more radical than the usual exhortations of this kind. Incorporating all three imperatives may be a necessary (though not sufficient) condition for "valuable" accounting research".²⁰¹

Accounting researchers should be explicit about the value systems underlying their work. This would place their work within a particular paradigm and facilitate the evaluation of alternative paradigms. Researchers are encouraged to describe 'accounting in action';

199. *ibid.*, p.210.

200. *ibid.*, p.219.

201. *loc.cit.*

"... that is the effects of accounting on society (and vice versa) and for increased understanding of the relationships between accounting, the accounting profession and the institutions in society..."²⁰²

provided that recognition is given to descriptions beyond 'commonsense' views of the world.

Finally, the researcher needs to be 'critical' a term interpreted as looking beyond markets and established value systems in order to assess the background influences on accounting. Cooper and Sherer indicated some doubt that the last imperative could be successfully implemented:

"Whether critical theory can in practice be applied to accounting research ... depends on whether researchers can free themselves from the attitudes and orientations which result from their social and educational training and which are reinforced by the beliefs of the accounting profession and the business community".²⁰³

A number of suggestions for research within a political economy accounting framework are given. These include accounting and social welfare on a macro scale, involving liaison with other disciplines;

"... however, we are not advocating conventional social accounting or cost benefit analysis where incommensurate dimensions are compressed into the single dimension of money and valued in relation to market prices".²⁰⁴

Other suggestions given are research into accounting as ideology (the use of accounting data in social confrontations) and the identification of accounting problems (which is currently influenced by corporate and professional patronage).

202. *ibid.*, p.220.

203. *ibid.*, p.222.

204. *ibid.*, p.223.

In conclusion the authors stated that;

"... it may be insufficient to rely on the market for accounting research to foster research which is significantly different in approach from the existing paradigm. Rather, in order to develop a political economy of accounting normative, descriptive and critical research needs to be actively promoted and nurtured".²⁰⁵

4.26 Tinker (Ed.), 1982

This edited book of contributions is the record of a public interest conference session sub-titled "Private Enterprise versus the Public Interest". It contains papers by Lindblom, Briloff, Sporkin and Tinker. With the exception of Tinker the contributions are well known for their interest in the public accountability of corporations other than from a Marxist perspective. For example, Lindblom is concerned about additional regulation of public corporations because he does not accept that they are any longer private organisations:

"We shall consequently have to abandon the traditional view that corporations are private organizations. We shall have to acknowledge the public character of enterprizes, especially of big businesses ... We shall have to acknowledge that they have become social instruments in the same way that government agencies are social instruments."²⁰⁶

The importance of accounting in this process of additional regulation lies in;

"... identifying its prestigious core with a growing role in social investigation for the benefit of responsible authority and accountable corporations."²⁰⁷

Briloff attacked the quality of the public audit function of the accounting profession, the standard of disclosure of most public corporations and the

205. *ibid.*, p.226.

206. Lindblom, C.E., "The Accountability of Private Enterprise: Private - No. Enterprise - Yes", in Tinker, A.M. (Ed) Social Accounting for Corporations (Marcus Weiner, New York, 1982) p.22.

207. *ibid.*, p.24.

type of accounting standards produced by the Financial Accounting Standards Board. Briloff was concerned that the Securities and Exchange commission (SEC) did not regulate effectively in dealing with corporate disclosures and the public audit statement. Although the topics covered in this paper are of general importance to the accounting discipline they are not of particular relevance to social accounting as it is commonly defined. The paper did not consider the extension of present accounting systems but attempted to initiate changes which would make current accounting systems work better.

Sporkin, formerly a director of the SEC, was concerned with the subject of realism in published accounts. The topic ranged from accounts which meet a number of specific accounting standards or generally accepted accounting principles but are nevertheless unsatisfactory (not realistic), to those which conceal material facts and are, therefore, misleading. Sporkin provided a list of rules to be applied in order to ensure realism in accounting and auditing reports. His paper may be criticised as defending the status quo to a considerable extent, and also because there is relatively little concern with social accounting or extensions of current accounting techniques into new areas.

Tinker provided an introduction and a concluding paper. The latter formed the basis of a later work which is considered under 4.27 below, and will not be reviewed here. In the introduction Tinker noted that public interest accounting is an unsatisfactory label, but also indicated how some (academic) accountants saw that it might be used:

"For many accountants, "public interest accounting" is not an autonomous realism for cultivating "good deeds" and paternalistic liberal ideas; rather, it is a convenient incubation area for developing critical and radical perspectives, intended for populating the subject as a whole."²⁰⁸

However, it should be noted that for many accountants public interest accounting is synonymous with social accounting which is seen somewhat unclearly, but in evolutionary rather than revolutionary terms.

²⁰⁸. Tinker, A.M. Social Accounting for Corporations (Marcus Weiner, New York, 1984) p.7.

4.27 Tinker, 1985

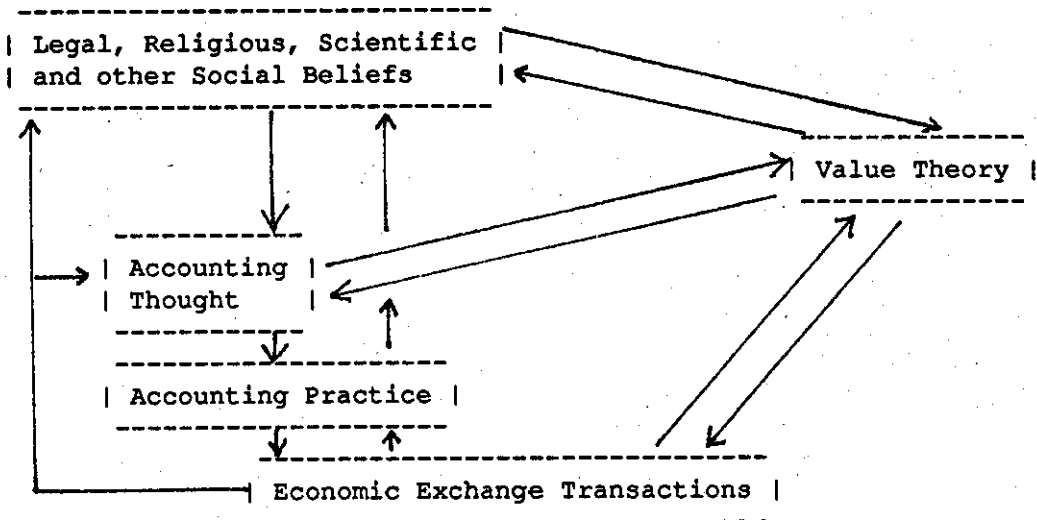
In a book which has attracted considerable attention and critical acclaim Tinker critiques accounting from a Marxist position and proposes the outline of an alternative system. The book is divided into four parts, beginning with an exposé of a number of scandals involving large corporations. The purpose of this part appears to be to indicate that not all (any?) large corporations behave in a socially responsible manner and that their irresponsibility is not hindered, and indeed may be assisted, by current accounting systems.

In part two, Tinker begins his consideration of value theory which is a major contribution to the accounting literature. Accounting practice is defined as;

"... a means for resolving social conflict, a device for appraising the terms of exchange between social constituencies, and an institutional mechanism for arbitrating, evaluating and adjudicating social choices."²⁰⁹

The relationship between value theory and accounting is demonstrated in the diagram reproduced as Exhibit 8.

EXHIBIT 8
The Relationship Between Value Theory and Accounting



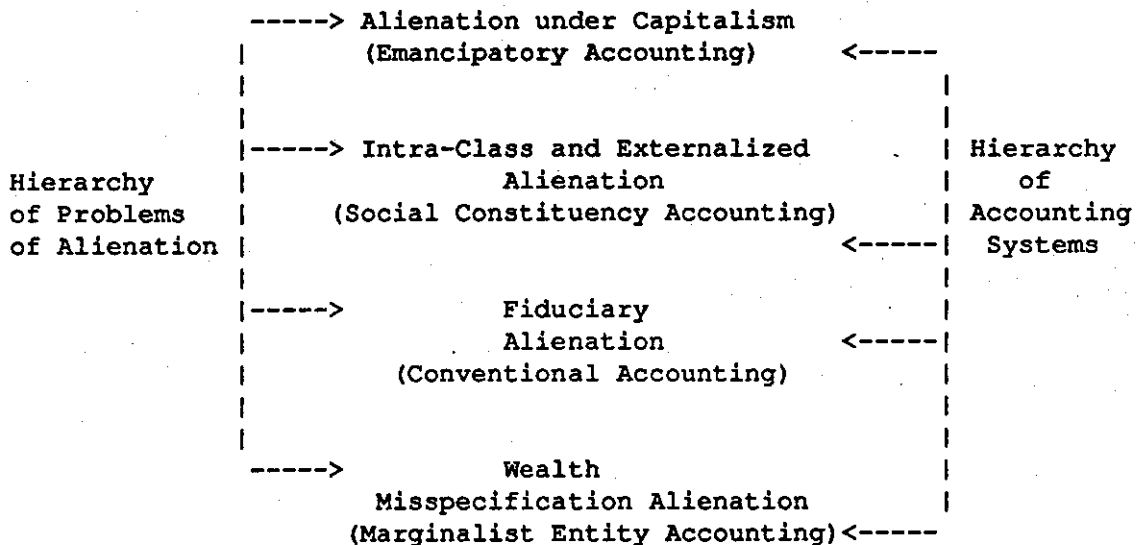
Source: Tinker, op.cit., p.83.

²⁰⁹. Tinker, 1985 op.cit., p.81.

Accounting practice is shown as affecting, and being affected by, economic exchange transactions. Value theory relates to both economic exchange transactions and accounting thought; though the latter value theory also affects accounting practice. The relationship between accounting and value theory is explored in an historical context and Tinker suggests that early forms of accounting involved labour value theory which was an early form of developed exchange. This leads into part three, which provides a detailed discussion of theories of value especially Marxian labour theory of value compared to the marginalist theory of private value, which is criticised for providing the basis of modern accounting. The marginalist value theory adopted by modern accounting means that accounting as a discipline is not value-free, it supports the status quo and does not perform the functions attributed in the definition provided above.

Part four offers a conceptual outline of a new form of accounting, radical accounting, which would provide a response to a variety of problems brought about by alienation. A hierarchy of problems due to alienation are illustrated together with a related hierarchy of accounting systems. These are shown in Exhibit 9.

EXHIBIT 9
Alienation and Accounting Consciousness



Source: Tinker, op.cit., p.178.

In the discussion which takes up the last part of the book Tinker deals with social constituency accounting and emancipatory accounting. Social constituency accounting recognises two forms of alienation; intra-class

alienation and externalised alienation which have not been considered previously. The parties concerned are capital providers, local communities and neighbourhoods, customers, labour and overseas Nations. The approach of social constituency accounting is to recognise externalities:

"Corporations may be compelled to acknowledge their external effects by fines, taxes, compensation payments and restrictions on the use of technology. These different practices result in the externalities being internalized or impounded in the cost and profit functions of the offending corporation, thereby curtailing the antisocial (alienating) effects."²¹⁰

However, although some attention is given to social constituency accounting Tinker does not consider that it is adequate for his needs:

"Marginalists entity accounting was adjudged inadequate because it ignores many of the social contradictions raised by surrounding activity; thus we find that, in the final analysis, social constituency accounting, with its marginalist underpinnings, is similiary flawed."²¹¹

This means that the majority of the literature on social accounting which refers to additional disclosures, including those of externalities, is also considered to be deficient. Tinker has responded to this perceived deficiency by introducing the further category of 'emancipatory accounting' which is intended to deal with the problem of alienation under capitalism. This form of accounting is incompletely developed, although it clearly is based upon labour theory of value, is antipathetic to capitalist systems of production and consumption and consequently is revolutionary rather than evolutionary in terms of current practice. Tinker is almost silent on the content of emancipatory accounting:

²¹⁰. *ibid.*, p.217.

²¹¹. *ibid.*, p.217.

"Emancipatory accounting includes information systems capable of recognizing the alienating effects of capitalism and therefore is more effective in detecting capitalist alienation than any of the other accountability systems discussed previously."²¹²

Clearly further work is needed in this area if Tinker is going to provide substance to this particular form of accounting.

Paper Prophets has been critiqued from both the conventional and radical accounting positions. Johnson ²¹³ has suggested that the work contains several faults including a supercilious writing style, poor linkage between sections and a lack of specificity in relation to what radical accounting systems would look like in practice. Only the last point has any validity, despite a rejoinder by Tinker to the contrary.²¹⁴

A similar point has been made in a review by Laughlin and Puxty. The review is favourable and the authors note the difficulties inherent in providing specification for a completely new system of accounting:

"It is hardly surprising therefore that the alternative proposed by him is not worked out in detail. ... Tinker is rejecting the basing of accounting values in market transactions. Instead, he is proposing a value system based in production. It is not clear if the balance sheet headings will remain essentially the same but the numbers attached to them would differ ... "²¹⁵

Alternatively, Laughlin and Puxty note that the whole of the property owning relationships in society may be changed. It is also noted that the mechanism by which society is to adopt a different form of accounting is not made clear; is a pluralistic society with more active and energetic checks on accountability envisaged or some other scenario:

"We are not clear if he envisages his system as improving current society, or being operational only in an alternative society."²¹⁶

212. *ibid.*, p.202.

213. Johnson

214. Correspondence published in the Social Accounting Monitor (November 1986).

215. Laughlin and Puxty, *op.cit.*, pp.87-88.

216. *ibid.*, p.89.

If others were clear about this feature of radical accounting reactions might be different. Tinker has made a major contribution to the social accounting literature although not completely specifying his more advanced theories. The effect of this work will be considered in section 4.40.

4.28 Lehman, 1987

Lehman has examined one of the most conservative aspects of accounting, professional ethics, from a radical position. In a review of accounting literature which covered the categories of discourse, rather than the actual content, she concluded that:

"The results above suggest that ethics is denied any fundamental importance in these publications; rather, ethical practices are secondary to profit maximization. The real "lesson" taught in these publications is survival of the fittest; compete rather than co-operate; advance the individual before the community. The promotion of Social Darwinism in business, the sacrosanct status attached to individual advancement and the valueing of ends (the bottom line) over means inhibits critical appraisal of unethical practice."²¹⁷

Lehman notes that the predominant mode of accounting education is connected with how do 'do' things not with the 'why' they are done and the underlying implications of the particular course of action under examination. The trend in education shows that business education is taking the place of studies in education and the humanities in providing the basic general education to many young graduates, and yet the level of attention given to ethical matters in business courses is very low.

The institutional call for education in ethical matters is designed to constrain the system and ensure its survival because ethical behaviour is an informal control mechanism which mitigates against the worst excesses of the market system. The radical view is that the encouragement of ethical conduct in the professional and educational arenas should not be to ensure survival of the system; it should examine the broad effects of the action of organisations on the environment; and should involve education to the

²¹⁷. Lehman, op. cit., p.5.

extent of questioning the institutionalisation of inequalities, political constraints and the role of accounting in social conflicts; finally, social and political issues should not be taught as separate from accounting and business. This position is summarised by Lehman as follows:

"In contrast, the education in ethics proposed here entails: challenging old notions of ethics as good deeds of individuals, exploring the structures inhibiting socially desirable behaviour, and promoting political and institutional changes that would advance ethics."²¹⁸

4.30 A Synthesis of the Radical Position

The radical literature which has been surveyed in this chapter serves to emphasise a number of different aspects of the radical approach. A number of basic characteristics may be distinguished, they are:

- i. The market must be de-emphasised, or even abolished, as a device for allocating resources.
- ii. Corporations are owned, organised and operated in a manner that is designed to exploit entrenched power relationships.
- iii. The accounting profession as it is currently organised is engaged in wittingly or unwittingly maintaining the status quo by attaching itself to one party to social conflict (capital) to the exclusion of the other main party (labour).
- iv. The accounting profession engages in mystifying the processes in order to exercise power. Value positions held by accountants are based on marginal economics and are deficient because of i. above.
- v. Accountants are ignorant of the extent to which the discipline is both socially constructed and socially constructing.
- vi. Accounting as a discipline must be changed to take account of social relationships in a much wider manner, perhaps by incorporating a labour theory of value.
- vii. Accountants, accounting educators and accounting students must appreciate that they have a choice in their social relationships; they must consciously take sides in social conflict.
- viii. Social accounting as presently advocated by most of the literature, is deficient because it only considers additional disclosures and

²¹⁸. *ibid.*, p.13.

perhaps externalities, does not envisage a change in ownership of capital resources, would regulate the market mechanism rather than dispose of the market altogether, is too close to the marginalist economic position and is based on an extension of the status quo with some modification. Social accounting is evolutionary rather than revolutionary when viewed from a radical perspective and consequently is considered inadequate or even obstructionist.

If this synthesis has validity it is reasonable to ask what contribution the radical paradigm can make towards social accounting in the form advocated by mainstream literature.

4.40 The Contribution of the Radical Paradigm Towards Social Accounting

After reviewing the literature of the radical paradigm in accounting, it is concluded that there exists only a marginal overlap with current attempts at implementing social accounting (which are described in Part II). The areas of social permission theory (the social contract and organisational legitimacy) and administrative theory are adjacent to the radical paradigm but do not present the same analyses. The radical paradigm provides an alternative view of the place of corporations in society, together with the accounting discipline which supports and regulates these corporations. It is a necessary view which can stimulate researchers and students to question both their value systems and that of the discipline within which they work.

The problem with the radical approach to social accounting is that the literature may only interest those readers already prepared to question the basis of societal organisation (in Western capitalist economies). In other words the radical literature tends to be an example of "preaching to the converted" in some ways, and will be ineffective when attempting to convince most accountants and managers of the need for social accounting. Alternatively, it might provide a worst case example of a 'future' if corporations do not change some aspects of their organisation and embrace notions of a wider accountability.

The normal relationship of accounting to society and social change is that of a service activity, which reacts to change, not that of a policy making system which is proactive and initiates changes. Consequently accounting

as a discipline evolves and the social accounting area is evolving only slowly as the second part of this thesis will demonstrate. If society indicates, through the political process, a desire for more rapid changes in disclosure practices, the accounting disciplines will respond.

4.40 Chapter Summary

The diagram of the relationship of value theory and accounting, which is adopted from Tinker and reproduced as Exhibit 8, acknowledges the importance of another source of influence on accounting namely legal, religious, scientific and other social beliefs. This amounts to a cultural effect, which was referred to in chapter three and is explored in greater detail in chapter seven when considering differences in disclosure practices. The effect of culture on accounting appears to be considerable and a force for stability and against revolutionary change.

At the risk of appearing naive, it is concluded that the form of accounting which exists in a society is a product of a large variety of factors, the majority of which are satisfied by the output from the accounting system. This position does not mean that change is not desirable but that change is likely to be slow and evolutionary rather than rapid or revolutionary. Accordingly, the radical approach is not thought to be a particularly useful vehicle at the present time for influencing accounting practice, although the contributors offer particularly stimulating insights in the form of alternative views of the world. There is an element of resistance to evolutionary social accounting generated by the publicity given to the views of accounting radicals which cannot be ignored. In line with the radicals urging of researchers to state their value positions it was stated in the introduction that this thesis views social accounting from an evolutionary perspective.

Within the context of developing strategies to gain acceptance for social accounting disclosures or justifications for the expenditure of additional discretionary resources, this chapter has identified the radically related arguments. Furthermore, the differences between arguments for disclosures which are based upon notions of the social contract and arguments based upon more radical views of the corporation and its environment have been explored. The radical perspective has been applied much more widely than social accounting as has been demonstrated from the literature cited. The author argues for the more evolutionary direction because it is likely to

be more advantageous as a strategy leading to the development and adoption of social accounting. This is not to suggest that the radical approach does not have value for researchers and graduate students. However, in terms of interesting practicing accountants and others in social accounting, there are considerable philosophical limitations.

These limitations are associated with the mainstream view of the usefulness of the market mechanism, together with a social structure in which a large proportion of the populace are property owners to some extent. The radical view of accounting would seek to de-emphasise or eliminate the use of the market mechanism and is basically antithetical to capitalistic modes of production, seeking to use alternatives such as administrative organisational structures and labour theory of value.

CHAPTER FIVE

5.00 A Summary of Part I: Arguments Justifying Social Accounting

Disclosures

It was suggested in the introductory chapter that many writers in the area of social accounting have assumed that the ideas put forward for developments in this field are desirable, justified, and filled a demonstrated need. The early literature argued a case for social accounting and non-traditional forms of reporting, later contributions have taken this case to be self evident. Clearly, to a vast majority of the accounting, managing and investing community the advantages are not self-evident, otherwise more would have been achieved towards implementing additional accounting disclosures in the last decade. Furthermore, the interests of different groups are no more congruent about social accounting than they are about other aspects of our complex society.

This part of the thesis has used three approaches to associate attributes of social accounting with the arguments put forward by different parties. It is suggested that the attributes of social accounting associated with a particular user-group may lead to a strategy by which greater acceptance of non-traditional accounting and the attendant use of additional discretionary resources may be achieved.

Chapter two introduced the market related arguments which may be used to justify social accounting disclosures via research into the information content of additional disclosures and the effects these may have on corporate income and stock market values. Evidence of an association, or of information content, may be of interest to groups associated with traditional shareholder and management roles. This strategy may be likened to the implementation of the seldom quoted eleventh objective in the Trueblood Report. The chapter reviewed the research connecting additional social responsibility accounting disclosures with share prices and other market related indices. Although the evidence is conflicting there does appear to be information content present in these disclosures. It was concluded that shareholders and creditors may be interested in this information and that a justification based upon shareholder-usefulness may be a partial strategy to obtain additional information in the form of social accounting.

The socially related arguments discussed in chapter three, may be used to develop the notion of a social contract between productive organisations and other groups. The moral agency of the corporation may be established and through the notion of a social contract with business, other groups such as employees, customers and the general public may expect additional disclosures. The strategy to achieve a greater demand for social accounting by those who are sympathetic to additional disclosures might be to stress the complementary rights and obligations of the corporation through moral agency and not by a radical attack upon the basic system. This approach leads logically to an emphasis on organisational legitimacy as the pragmatic expression of social permission theory. Managers who are unable to accept the moral imperative of the social contract arguments may be prepared to consider the amoral position of the organisational legitimacy approach.

The Corporate Report referred to the information needs of a wider group of users including employees and the general public; all those with 'reasonable rights' to the information. Despite the far reaching and apparently radical nature of the recommendations contained in the Corporate Report, there do not appear to be any radical political or organisational considerations.

The market related and socially related approaches are different means of looking at the world without envisaging radical changes in organisational structures. The strength of these approaches is that the world is similar to that seen by most shareholders, creditors, managers, customers, employees and the general public. These groups may be socially conditioned, nevertheless, such that their reactions are predictable and in favour of evolution rather than revolution. The effect of culture on accounting sub-cultures, which was briefly introduced in chapter three, may have a bearing on this condition of relative stability. This thesis bases the structure of a more socially relevant accounting in Part II, on the arguments advanced within chapters two and three rather than the radical paradigm because the structure is concerned with implementation. It is argued that strategies for implementation are best provided for shareholders and creditors through the market related studies and for other groups through the social contract and organisational legitimacy positions. It is argued that the evolutionary process of accounting will lead to a

decrease in the emphasis on the market studies and to a corresponding increase in the emphasis placed on the other arguments. Both public and private sector organisational activities are included in the arguments advanced.

The radical approach, and the associated literature discussed in chapter four, offers a most interesting field for research. However, there is a considerable difference between developing an interesting field for research and communication between academics and achieving a degree of acceptance by management, practitioners, and the general public. The radical paradigm is offered as an alternative to the components of the social permission theory, the social contract and theories about organisational legitimacy. The economic nature of the corporation is seen as a part of the whole to be considered along with social, moral and quality of life factors which cannot be processed through the market place. The motives and interactions of individuals and collectives are seen as problematic. A particular problem is the extent to which organisations can manipulate the regulatory environment within which they operate, including the regulation exercised over disclosures in annual reports.

The radical literature is, by definition, unsympathetic to the shareholder creditor group considered above, and impatient with the evolutionary nature of the reforms/changes contained in the socially related arguments. Perhaps the research of the radical paradigm might be directed towards large scale public sector developments in the areas categorised by the author as socio-economic and social indicators accounting but the majority of radical theorists are concerned with private sector organisations. However, a radical strategy is unlikely to generate the climate in which a majority of managers, investors and accountants will be inclined to favour the development of social accounting.

In view of the increased investment needed to provide a more comprehensive reporting framework, strategies are needed to bridge the gap between research and academic writing and the implementation of these ideas. Without a bridge, social accounting will not advance very far, or very quickly.

5.10 Conclusion

Part I (chapters two to four) has considered three strategies which may be advocated by proponents of the development of social accounting. They are (1) placing the stress upon the information content of social accounting disclosures in annual reports which may be of interest to shareholders and creditors; (2) concentrating upon the social contract, the moral nature of the corporation and organisational legitimacy which, it is argued, would concern the other groups in society; and (3) being concerned with the radical paradigm which may be influential with social activists and reformers.

Subsequent chapters present an examination of the structure of social accounting reporting and research assuming that the audiences will be drawn from adherents to the first two groups rather than the radical paradigm. The latter may be well suited to developing the critical faculties of researchers and students. However there is no evidence that it will be particularly persuasive with the majority of managers, accountants, and similar groups at the present time.

The relationship between the accounting discipline and the social environment, would indicate that until society changes further in the direction indicated by the radical theorists it is unlikely that the discipline will acquire a radical emphasis. Conversely, if society changes, accounting will follow. Attention will now be given to the classification and structure of research into social accounting and the limited implementation which has already taken place.

PART II - A SUGGESTED CLASSIFICATION FOR SOCIAL ACCOUNTING

CHAPTER SIX6.00 The Classification of Social Accounting: An Introduction6.10 Introduction

Although normative-deductive accounting research is not currently fashionable, it is considered that there should still be some interest in developments of the kind which this part of the thesis sets out to explain: Particularly since the use of additional resources has been justified in Part I. McDonald has classified theories of accounting as descriptive (theories of accounting)²¹⁹ and normative (theories for accounting). Furthermore, he associated the two alternatives with different methods of arriving at the policies shown in Exhibit 10 below.

EXHIBIT 10

Alternative approaches to policy formation adopted from McDonald²²⁰

Rational Comprehensive
(root)

Successive Limited Comparisons
(branch)

-
- | | |
|--|--|
| 1a. Clarification of values or objectives distinct from and usually prerequisite to empirical analysis of alternative policies. | 1b. Selection of value goals and empirical analysis of the needed action are not distinct from one another but are closely intertwined. |
| 2a. Policy-formulation is therefore approached through means-end analysis: First the ends are isolated, then the means to achieve them are sought. | 2b. Since means and ends are not distinct, means-end analysis is often inappropriate or limited. |
| 3a. The test of a "good" policy is that it can be shown to be the most appropriate means to desired ends. | 3b. The test of a "good" policy is typically that various analysts find themselves directly agreeing that it is the most appropriate means to an agreed objective. |

²¹⁹. McDonald, D.L., Comparative Accounting Theory, (Addison Wesley, Mass., 1972).

²²⁰. *ibid.*, pp.14-15, Original source Lindblom, C.E., "The Science of Muddling Through", Public Administration Review, Vol.19 No.2 (1959).

- | | |
|--|--|
| <p>4a. Analysis is comprehensive; every important relevant factor is taken into account.</p> | <p>4b. Analysis is drastically limited</p> <ul style="list-style-type: none"> i) Important possible outcomes are neglected. ii) Important alternative potential policies are neglected. iii) Important values are affected. |
| <p>5a. Theory is often heavily relied upon.</p> | <p>5b. A succession of comparisons greatly reduces or eliminates reliance on theory.</p> |

The rational-comprehensive approach is associated with a normative view leading to a theory for accounting. The successive limited comparisons approach corresponds more with the evolution of accounting. Goals are required in both cases, however, they are arrived at in different ways. In the descriptive approach goals are deduced from observing actions, decisions and policies, whilst in the normative approach;

"... goals are stated a priori, and decisions, actions, and policies are evaluated or judged in terms of the established goals. Thus, goals, their nature and scope, must be of concern in any discussion of accounting or any other discipline".²²¹

Part II is mainly concerned with normative accounting and has the goal of explicating the confused area of research often referred to as social accounting, by reference to a framework or classification which may lead towards a more socially relevant accounting.

Initially the author addresses the issue of the confusion about what constitutes social accounting introduces a discussion of measurement problems. Later chapters deal with each of the component parts into which the author has divided the field to permit easier examination; this is the suggested organisation for social accounting research. The philosophical justification for this field of study, which was discussed in Part I, is then set into the context in which it most frequently appears, the consideration of externalities. Finally, the separate areas are reintegrated to form a system of accounting which is more socially relevant, thus demonstrating the usefulness of the classification system.

²²¹. *ibid.*, pp.15-16.

References to social accounting may be found in company reports, press releases, the news media and occasionally political speeches. The frequency of these references would suggest that social accounting might become increasingly important in the future, as the discipline of accounting is extended to include a variety of items not disclosed at present. However, the development of alternative disclosures is particularly subject to social and economic conditions. Consequently it can not be claimed that development will be continuous or without periods of regression. As discussed in the first part of the thesis, a number of alternative approaches may be used to justify a concern with this form of reporting.

However, the argument for an increase in socially relevant accounting information cannot be made simply by justifying the basic notion and a closely argued case must be clearly established for the implementation of the disclosures. The case for an extension of social accounting measurements and disclosures is affected by confusion and problems with measurement and evaluation. The confusion arises partly because the term social accounting is used in different ways by different groups of people and the measurement difficulties are always present in any new area (indeed they are what accounting is all about). The disagreements about how far accountants should go in their measurement and reporting activities are traceable to fundamental differences in philosophies about disclosure and reporting. Indeed, some of the works considered in the chapter dealing with the radical critique would suggest that the issues are much more complex than simply disclosure and reporting, but extend deeply into the social fabric of the host society. Deeply ingrained value positions affect the researcher and the resultant research.

Experience with an earlier paper,²²² the preparation of a survey paper on social accounting research in Australia and New Zealand,²²³ and discussion with interested parties, has indicated the need for a framework within which social accounting research could be fitted. Such a framework might

222. Mathews, M.R., "New Areas in Accounting: Some Clarifying Comments", Occasional Paper No.37 (Faculty of Business Studies, Massey University, 1981).

223. Mathews, M.R., "A Survey of Social Accounting Research in Australia and New Zealand", in M.R. Mathews, (Ed) Readings in the Development of Accounting (Dunmore Press, Palmerston North, 1984).

be of assistance in formulating empirical research, in analysing the existing literature or in developing teaching programmes. Furthermore, the fit between current disclosure practices and desired disclosures may be examined.

6.20 The Basic Outline: Confusion and Structure

Those who conduct research in the area of social accounting often experience some difficulty in explaining their work to others. The use of 'social' in conjunction with accounting, does not seem to work as well as the addition of 'financial', 'management' or 'tax'. These words add a large measure of explanation and precision to 'accounting' which 'social' does not. Perhaps one difficulty, not encountered by the descriptors given above, is the range of total activity included under social accounting. In this thesis the term is used to cover the following activities:-

6.21 Social Responsibility Accounting (SRA)

Social responsibility accounting refers to disclosures of financial and non-financial, quantitative and qualitative information about the activities of an enterprise. This area also includes employee reports (ER), human resource accounting (HRA) and accounting and industrial democracy. Alternative terms in common use are social responsibility disclosures and corporate social reporting. This is the most usual type of social disclosure but perhaps lacks the depth of philosophical concern which is present in;

6.22 Total Impact Accounting (TIA)

This term is used here to refer to the aggregate effect of the organisation on the environment. To establish this effect it is necessary to measure both positive and negative externalities. Because of the origins of this area it is often referred to as cost benefit analysis (CBA) or social accounting (thereby confusing the use of that term) and sometimes as social audit.

6.23 Socio-Economic Accounting (SEA)

Socio-economic accounting is the process of evaluating publicly funded activities, using both financial and non-financial quantification. The entire activity should be evaluated, with a view to making judgements about the value of expenditure undertaken, in relation to the outcomes achieved.

6.24 Social Indicators Accounting (SIA)

The term social indicators accounting is used to describe the measurement of macro-social events, in terms of setting objectives and assessing the extent to which these are attained. The outcomes of this analysis should be of interest to national policy makers.

6.25 Societal Accounting

Societal accounting is used by some writers in this area to suggest a form of accounting which integrates all other forms into an overarching or meta-theory. The discussion of societal accounting is conceptual since implementation at this level is not envisaged.

Each of these component parts of the social accounting framework will be considered in turn. However, the characteristics are more clearly seen when shown in a comparative format as in Exhibit 11.

EXHIBIT 11
The characteristics of the various component
parts of social accounting

DIVISION	PURPOSE	AREA OF MAIN USE	TIME SCALE	MEASUREMENTS USED**	ASSOCIATED AREAS
1. SOCIAL RESPONSIBILITY ACCOUNTING (SRA)	Disclosure of individual items having a social impact.	PRIVATE SECTOR	SHORT TERM*	Mainly Non-Financial and Qualitative Levels I, II,	Employee Reports, Human Resource Accounting, Industrial Democracy.
2. TOTAL IMPACT ACCOUNTING (TIA)	Measures the total cost (both public and private) of running an organisation	PRIVATE SECTOR	MEDIUM AND LONG TERM	Financial AAA Level III	Strategic Planning, Cost-Benefit Analysis.
3. SOCIO- ECONOMIC ACCOUNTING (SEA)	Evaluation of publicly funded projects involving both financial and non financial measures.	PUBLIC SECTOR	SHORT AND MEDIUM TERM	Financial Non-Financial Levels II and III	Cost-Benefit Analysis, Planned Programmed Budgeting Systems, Zero Based Budgeting, Institutional Performance Indicators. Value for Money audit.
4. SOCIAL INDICATORS ACCOUNTING	Long term non-financial quantification of societal statistics.	PUBLIC SECTOR	LONG TERM	Non-Financial Quantitative AAA Level II	National Income Accounts, Census Statistics.
5. SOCIETAL ACCOUNTING (SA)	Attempts to portray accounting in global terms - overarching theories.	BOTH ALL EM- BRACING	ALL	Financial Aggregates	Systems Theory, Mega Accountancy Trends.

* Normally short term to fit annual reporting patterns.

** refer section 6.30.

Exhibit 11 shows the basic divisions or components of the framework. The dimensions are based upon a division between the private and public sectors, the time scale involved and the types of measurement used. Thus the area of social responsibility accounting is predominantly a private sector short-term reporting system, using mainly non-financial quantitative and qualitative data. The second division concerns the difficult problem of the identification, measurement, valuation and disclosure of externalities. Together social responsibility accounting and total impact accounting make up what most of the literature refers to as social accounting. In contrast the third division, socio-economic accounting, is a public sector activity, using qualitative and quantitative data (of both financial and non-financial types) to evaluate programmes of short and medium term. Social indicators accounting is the macro activity which complements the socio-economic accounting activity. Taken together, these activities are intended to improve the performance and accountability of public sector activities. Societal accounting conceptualises all accounting as interrelated. The basic issue of measurement is addressed next.

6.30 Measurement

The American Accounting Association, in the report of the Committee on Social Costs, suggested that three levels of measurement may be involved in the development of social accounting.²²⁴ These are:

Level I, where the activity is identified and described. Examples might be the identification of polluting materials which are being discharged into the environment.

Level II, where the activity is measured using non-monetary units. The polluting materials are measured in terms of rate of discharge, the timing of flows, and compliance with existing standards formulated in physical terms.

Level III, where attempts are made to value the discharge. The measurements are converted to financial estimates of costs and benefits to all stakeholders, ranging from shareholders to the general public.

²²⁴. American Accounting Association, "Report of the Committee on Social Costs", The Accounting Review Supplement to Vol. XLX (1975) pp.51-89.

The three levels of measurement may be illustrated by reference to sulphur dioxide gas, a common cause of pollution. If sulphur dioxide is discharged into the atmosphere it will soon be detected by its odour, and elementary analysis will confirm that the odour is caused by sulphur dioxide. This is a Level I measurement. The volume of discharge measured over a period of time in physical units, such as parts per million (ppm) will provide a Level II measurement. A Level III measurement is made when we convert the effect of the discharge into financial terms.

The last type of measurement is the most difficult, because it involves valuation and the assignment of costs to events which are external to the organisation. Examples might be damage to the paintwork of neighbouring housing areas, the destruction of parks and gardens, and the creation of health problems. These valuation problems may be difficult to overcome and the values assigned to the effects of pollution will be open to dispute. The discounting to present value of the cost of future events, such as repairs or replacements, or the payment of damages, is obviously problematic. These measurements are made, however, in calculating compensation for injury, loss of earnings or death from accident. Even if the local pollution measurement and valuation issues can be resolved, difficulties will arise where the damage is remote from the source in terms of time and distance. To continue the sulphur dioxide example, the effects of low levels of atmospheric sulphur dioxide over long periods of time may be more damaging to health than is currently recognised. This development (because it is currently unknown) cannot be allowed for in our valuation. Similarly if sulphur dioxide discharged in one country leads to acid rainfall in another many miles away, this event cannot be measured and valued in any meaningful way at the present time. However, this position may change as the result of recent ecological disasters including the Chernobyl nuclear contamination and the discharge of chemicals into the river Rhine. There is a political dimension to the valuation of externalities because individual and group value positions are involved. This will have been especially clear in the sections dealing with the radical critique of current accounting systems in chapter four, and is explored in the philosophical discussion on externalities in chapter nine dealing with total impact accounting.

The five categories of social accounting outlined in this part of the thesis are not exhaustive and further sub-division and classification may result from the development of the sub-discipline of social accounting. Indeed, this may be predicted on the basis of past trends in the development of the accounting discipline. An example of a specific area of attention might be energy accounting which would currently be regarded as a part of general social responsibility accounting disclosure but which might become a separate concern in the event of another energy crisis. There is also an extensive literature devoted to employee related accounting disclosures.

There seems to be relatively little attention paid to practical social accounting other than in the SRA area. This is probably due to SRA being short term and identifiable in the normal annual reporting procedure. TIA, being at the strategic level, is more likely to remain an internal document except in certain well publicised cases, often involving the policing of industrial activity by governmental agencies.

6.40 A General Introduction to SRA Disclosures

The objective of the remainder of this chapter is to introduce social responsibility accounting as an important aspect of the framework of research and reporting in Part II. In terms of current research and reporting, this area of non-traditional accounting disclosure has received the most attention. A suitable definition for social responsibility accounting might be:

"Voluntary disclosure of information, both qualitative and quantitative, made by organisations to inform or influence a range of audiences. The quantitative disclosures may be in financial or non-financial terms".

SRA usually applies to private sector organisations and involves a wide variety of information, most of which is non-financial in nature, and of interest to employees and the general public as well as shareholders and debtholders. Although organisational management may have a target audience it is usually unspecified and disclosure policy may be an implicit rather than an explicit aspect of their strategy. Reports of government funded activities may contain elements of SRA and these will be dealt with in chapter ten. Other terms used to describe this area include social

responsibility disclosures and corporate social responsibility. The pattern of development has been the inclusion of small amounts of data, in qualitative and non-monetary terms, as part of the annual report to shareholders. These disclosures are voluntary, unaudited and unregulated. SRA may be seen as an extension of the stewardship role and aimed at the maintenance or improvement of the corporate image. Indeed these two aspects, of stewardship and corporate image, may be in conflict where disclosures are voluntary and unaudited. In terms of justification the organisational legitimacy arguments may be the strongest motivator for these disclosures.

The earliest documentary analysis of published social responsibility accounting is usually credited to Ernst and Ernst (now Ernst and Whinney).²²⁵ This survey was started in 1972 using 1971 reports and continued until 1978 (1977 reports), using the published reports of the Fortune 500 corporations. Ernst and Ernst were aiming to inform their readership about what organisations were reporting and not to develop any theory, perform any detailed analysis, or adopt a normative approach. Although the categories adopted by the study may have influenced accountants about to develop a reporting system. No attempt was made to establish a connection between social responsibility disclosures and share price movements or to prescribe in a normative manner what should be disclosed. The reporting of certain social data has been criticised for a lack of accuracy and objectivity²²⁶ but to date most attention has been devoted to observing and recording rather than to a critical analysis of what has been recorded. A number of writers have used the information provided by an independent body (in place of corporation sourced data) in attempts at relating disclosures and share price movements.²²⁷

Disclosures by New Zealand companies were examined by Robertson,²²⁸

²²⁵. Ernst and Ernst, Social Responsibility Disclosure: Surveys of Fortune 500 Annual Reports (Ernst and Ernst, Cleveland, 1972-1978).

²²⁶. Wiseman, J.W., "An Evaluation of Environmental Disclosures made in Corporate Annual Reports", Accounting, Organizations and Society, Vol.7, No.1 (1982) pp.53-63.

²²⁷. This market based research was discussed in Chapter 2.

²²⁸. Robertson, J., "Corporate Social Reporting by New Zealand Companies", Occasional Paper No.17 (Faculty of Business, Massey University, 1977).

Davey²²⁹ and Ng²³⁰ while Australian company reports have been the subject of several studies; Trotman,²³¹ Kelly,²³² Trotman and Bradley,²³³ Pang²³⁴ and Guthrie.²³⁵ General introductions to social responsibility accounting disclosures in the United Kingdom may be found in the Corporate report,²³⁶ Robertson²³⁷, Lessem²³⁸ and Gray and Perks.²³⁹ Specific references to value added statements may be found in Morley²⁴⁰, Renshall et al²⁴¹, Gray and Maunders²⁴², and to employment reports in Thompson and Knell²⁴³ and Maunders²⁴⁴. Employee reports are covered by Hussey^{245, 246} and Purdy²⁴⁷.

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229. Davey, H.B., "Corporate Social Responsibility Disclosures in New Zealand: An Empirical Investigation", Unpublished Research Report, (Department of Accounting and Finance, Massey University, 1982).
230. Ng, L.W., "Social Responsibility Disclosures of Selected New Zealand Companies for 1981, 1982 and 1983", Occasional Paper No.54 (Faculty of Business Studies, Massey University, February 1985).
231. Trotman, K.T., "Social Responsibility Disclosures by Australian Companies", The Chartered Accountant in Australia (March 1979) pp.24-28.
232. Kelly, G.J., "Australian Social Responsibility Disclosures: Some Insights into Contemporary Measurement", Accounting and Finance, Vol.21 No.2 (Nov. 1981) pp.97-107.
233. Trotman, K.T. and Bradley, G.W., "Associations Between Social Responsibility Disclosure and Characteristics of Companies", Accounting, Organizations and Society, Vol.6 No.4 pp.355-362.
234. Pang, Y.H., "Disclosures of Corporate Social Responsibility", The Chartered Accountant in Australia (July 1982) pp.32-34.
235. Guthrie, J.E., Social Accounting in Australia: Social Responsibility Disclosure in the Top 150 listed Australian Companies 1980 Annual Reports, Unpublished Masters Dissertation, (WAIT, Perth, 1982).
236. ASSC, op. cit.
237. Robertson, J., "When the Name of the Game is Changing, How do We Keep the Score?", Accounting, Organizations and Society, Vol.1 No.1 (1976) pp.91-95.
238. Lessem, R., "Corporate Social Reporting in Action: An Evaluation of British, European and American Practice", Accounting, Organizations and Society, Vol.2 No.4 (1977) pp.279-294.
239. Gray, R. and Perks, R., "How Desirable is Social Accounting?", Accountancy (April 1982) pp.101-102..
240. Morley, M.F., The Value Added Statement (ICAS, Edinburgh, 1978).
241. Renshall, M., Allan, R. and Nicholson, K., Added Value in External Financial Reporting (ICAEW, London, 1979).
242. Gray, S. and Maunders, K.T., Value Added Reporting: Uses and Measurement (The Association of Certified Accountants, London, 1980).
243. Thompson, E.R. and Knell, A., The Employment Statement in Company Reports (ICAEW, London, 1979).
244. Maunders, K.T., Employment Reporting-an investigation of user needs, measurements and reporting issues and practice (ICAEW, London, 1984).
245. Hussey, R., Who Reads Employee Reports? (Touche Ross, Oxford, 1979).
246. Hussey, R., "Development in Employee Reporting", Managerial Finance, Vol.7 No.2 (1981) pp.12-16.
247. Purdy, D., "The Provision of Financial Information to Employees - a study of the reporting practices of some large public companies in the United Kingdom", Accounting, Organizations and Society, Vol.6 No.4 (1981) pp.327-338.

There is an extensive Canadian literature dealing with this general area. References include Ross²⁴⁸, Chan²⁴⁹, Anderson,^{250, 251, 252} Anderson, Brooks and Davis²⁵³, Burke²⁵⁴, Robinson²⁵⁵ and Demers and Wayland,^{256, 257}.

The growing interest in general social responsibility accounting disclosures extends throughout the English speaking accounting environment (but is not confined to this area as will be seen in chapter eight). The relationship between changes in market prices and SRA disclosures have been documented through a number of studies in chapter two. In addition, reference will be made to investigations by Kelly, and Trotman and Bradley on connections between the number of disclosures and the size and type of organisation. Their analyses included more sophisticated testing of statistical significance than had been used in other studies up to that time. Guthrie used content analysis in the measurement of disclosures by major companies and it was found that, in general, the larger organisations in terms of sales or market capitalisation, were more inclined to make social responsibility disclosures than smaller companies. Furthermore, Kelly found that primary and secondary industries disclosed information of a product or process nature, whilst tertiary industries emphasised community related information. The overall impression provided by these studies is of a limited amount of information about employee and product related matters, which is disclosed through mainly qualitative statements.

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- 248. Ross, G.H.B., "Social Accounting: Measuring the Unmeasurables", Canadian Chartered Accountant (July 1971) pp.46-54.
 - 249. Chan, R.S., "Social and Financial Stewardship", The Accounting Review (July 1975) pp.533-543.
 - 250. Anderson, R.H., "Social Responsibility Accounting: What to Measure and How", Cost and Management (September-October 1976) pp.34-38.
 - 251. Anderson, R.H., "Social Responsibility Accounting: Evaluating its Objectives, Concepts and Principles", CA Magazine (October 1977) pp.32-35.
 - 252. Anderson, R.H., "Social Responsibility Accounting; How to Get Started", CA Magazine (September 1978) pp.46-51.
 - 253. Anderson, R.H., Brooks, L.J. and Davis, W.R., The Why, When and How of Social Responsibility Accounting (CICA, Toronto, 1978).
 - 254. Burke, R.C., "The Disclosure of Social Accounting Information", Cost and Management (May-June 1980) pp.21-24.
 - 255. Robinson, C., "Efficient Markets and the Social Role of Accounting", CA Magazine (March 1980) pp.67, 70-72.
 - 256. Demers, L. and Wayland, D., "Corporate Social Responsibility: Is No News Good News?" CA Magazine (January 1982) pp.42-46.
 - 257. Demers, L. and Wayland, D., "Corporate Social Responsibility: Is No News Good News? - Part 2", CA Magazine (February 1982) pp.56-59.

There are a number of aspects of this research which are questionable and discussed in chapter eight which examines SRA in practice.

Although SRA appears to be becoming more acceptable to larger companies, it is necessary to maintain a sense of perspective. Guthrie reports an average disclosure of 0.2 pages per company report devoted to SRA, and this would appear to be a reasonable estimate, in line with the later of the Ernst and Ernst studies. However, there was no consideration given to the number of pages in the complete report and consequently no proportions could be calculated.

A number of surveys of accountants in Australia and New Zealand have shown some support for the basic principle of voluntarily disclosing social responsibility data in sections of the annual report.^{258, 259, 260} This support does not extend to compulsory disclosure and most respondents would not want to be involved in an audit of this information at the present time. Similar surveys carried out among members of the American Institute of Certified Public Accountants^{261, 262} and the National Accounting Association,²⁶³ have shown some support for voluntary disclosure of social responsibility information. However, there is some evidence that lower levels of support accompany the more difficult economic conditions experienced at the present time.²⁶⁴

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258. Anderson, R.H., "Attitudes of Chartered Accountants to Social Responsibility Disclosure in Australia" The Chartered Accountant in Australia (June 1980), pp.12-16.
259. Mathews, M.R., "What Accountants think of (certain) new ideas: the results of a limited survey", Discussion Paper No.10 (Department of Accounting and Finance, Massey University, 1982).
260. Mathews, M.R., and Heazlewood, C.T., "Accountants Attitudes to New Developments in Accounting", Occasional Paper No.46 (Faculty of Business, Massey University, 1983).
261. Benjamin, J.J., Stanga, K.G. and Strawser, R.K., "Corporate Social Responsibility: The Viewpoint of CPA's", The National Public Accountant (March 1977) pp.18-22.
262. Stiner, F.J. Jr., "Accountants Attitudes Toward Social Accounting", Mid Atlantic Journal of Business, Vol.16 No.2 (May 1978) pp.3-12.
263. Barnett, A.H. and Caldwell, J.C., "Accounting for Corporate Social Performance: A Survey", Management Accounting (November 1974) pp.23-26.
264. Mathews, M.R. and Schafer, E.L., "A Comparison of Accountants Responses to New Ideas: Washington State CPA's and New Zealand ACA's", Departmental Discussion Paper No.20 (Department of Accounting and Finance, Massey University, 1983).

Mathews and Gordon found that the degree of acceptance of social accounting as a concept varied according to the professional body to whom the respondent belonged. Management accountants tended to be more favourably inclined than those in public practice.²⁶⁵

6.50 Chapter Summary

This chapter has provided an outline of the proposed classification of social accounting which is advanced in this thesis as an aid to understanding the literature of the subject area, and to making further advances through individual contributions. The classification covers public and private sector activities, long, medium and short term time periods, and the use of monetary and non-monetary quantification as well as qualitative statements. The measurement classification of levels I, II and III put forward by the AAA report has been incorporated into the schema.

The second part of the chapter introduced social responsibility accounting, which is the most commonly discussed form of social accounting and the only form which is found in practice to any extent; chapters seven and eight continue the examination of SRA. Chapter seven is devoted to a consideration of SRA models, both conceptual and operational. Chapter eight deals with the practical side of SRA, demonstrating where this form of social accounting has been used in practice and illustrating the differences between the forms used in different countries.

²⁶⁵. Mathews, M.R. and Gordon, I.M., "Social Responsibility Accounting Disclosures - Differential Responses as a Function of Professional Body Membership", Working Paper No.8 (Public Interest Section, American Accounting Association, Spring 1984).

CHAPTER SEVEN

7.00 CONCEPTUAL AND OPERATIONAL MODELS FOR SRA

7.10 Introduction

The reporting of social responsibility information and accountants' support (or lack of support) for this activity must be viewed against the limited conceptual and operational frameworks available for guidance and evaluation. In the discussion that follows a number of examples will be examined in two groups, conceptual models and operational models. The two groups are differentiated by the extent to which the proposed models offer specific detail of the disclosures which are advocated. It should be noted that the number of models presented in the literature has increased rapidly in the period since 1980.

7.20 Conceptual Models Relating to Social Responsibility Accounting

In this section the following models will be discussed, they are presented in order of appearance; Ramanathan,²⁶⁶ Mirza and Bell,²⁶⁷ Burke,²⁶⁸ Wartick and Cochran,²⁶⁹ Logsdon,²⁷⁰ Brooks,²⁷¹ and Gray, Owen and Maunders.²⁷² The variety of approaches is evident from these chosen examples.

7.21 Ramanathan (1976)

Ramanathan provided a conceptual framework for the development of social accounting. The main objectives and concept definitions have been extracted from the article and grouped together as Exhibit 12 below.

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- 266. Ramanathan, K.V., "Toward a Theory of Corporate Social Accounting", The Accounting Review (July 1976) pp.516-528.
 - 267. Mirza, A.M. and Bell, J.J., "Accounting and Reporting for Corporate Social Performance", Monograph (Department of Commerce, James Cook University of North Queensland, 1982).
 - 268. Burke, R.C., Decision Making in Complex Times: The Contribution of a Social Accounting Information System (The society of Management Accountants of Canada, Ontario, 1984).
 - 269. Wartick and Cochran, op. cit.
 - 270. Logsdon, J.M., "Organizational Responses to Environmental Issues: Oil refining companies and air pollution", in Preston L.E. (Ed) Research in Corporate Social Performance and Policy, Vol.7 (JAI Press, New York, 1985) pp.47-71.
 - 271. Brooks, L.J., Canadian Corporate Social Performance (The Society of Management Accountants of Canada, Toronto, 1986).
 - 272. Gray, Owen and Maunders, op. cit.

EXHIBIT 12**Proposed Objectives and Concepts for Social Accounting****Objective 1**

An objective of corporate social accounting is to identify and measure the periodic net social contribution of an individual firm, which includes not only the costs and benefits internalized to the firm, but also those arising from externalities affecting different social segments.

Objective 2

An objective of corporate social accounting is to help determine whether an individual firm's strategies and practices which directly affect the relative resource and power status of individuals, communities, social segments and generations are consistent with widely shared social priorities, on the one hand, and individuals' legitimate aspirations, on the other.

Objective 3

An objective of corporate social accounting is to make available in an optimal manner, to all social constituents, relevant information on a firm's goals, policies, programs, performance and contributions to social goals. Relevant information is that which provides for public accountability and also facilitates public decision making regarding social choices and social resource allocation. Optimality implies a cost/benefit effective reporting strategy which also optimally balances potential information conflicts among the various social constituents of a firm.

Concept 1

A "social transaction" represents a firm's utilisation or delivery of a socio-environmental resource which affects the absolute or relative interests of the firm's various social constituents and which is not processed through the market place.

Concept 2

"Social overheads (returns)" represent the sacrifice (benefit) to society from those resources consumed (added) by a firm as a result of its social transactions. In other words, social overheads is the measured value of a firm's negative externalities, and social returns is the measured value of its positive externalities.

Concept 3

"Social income" represents the periodic net social contribution of a firm. It is computed as the algebraic sum of the firm's traditionally measured net income, its aggregate social overheads and its aggregate social returns.

Concept 4

"Social constituents" are the different distinct social groups (implied in the second objective and expressed in the third objective of social accounting) with whom a firm is presumed to have a social contract.

Concept 5

"Social equity" is a measure of its aggregate changes in the claims which each social constituent is presumed to have in the firm.

Concept 6

"Net social assets" of a firm is a measure of its aggregate non-market contribution to the society's well being less its non-market contribution to the society's well being less its non-market depletion of the society's resources during the life of the firm.

Ramanathan was concerned with all aspects of the social performance of an organisation. His framework is wider than others included in this chapter because no separation is acknowledged between SRA and total impact accounting (TIA). Objective 1 is clearly aimed at measuring the total impact of enterprise activities through the net social contribution. Objective 3 is closer to the normally accepted goal of SRA, that is, to provide relevant information about the firm which is appropriate for the needs of the different social constituents. The second objective may be related to either SRA or TIA.

The work of Ramanathan in the areas of total impact accounting and social indicators accounting will be outlined in the relevant chapters. This conceptual model may be considered a seminal work in the development of conceptual social accounting, but of limited assistance if taken separately, in determining what should be included in social accounting reports.

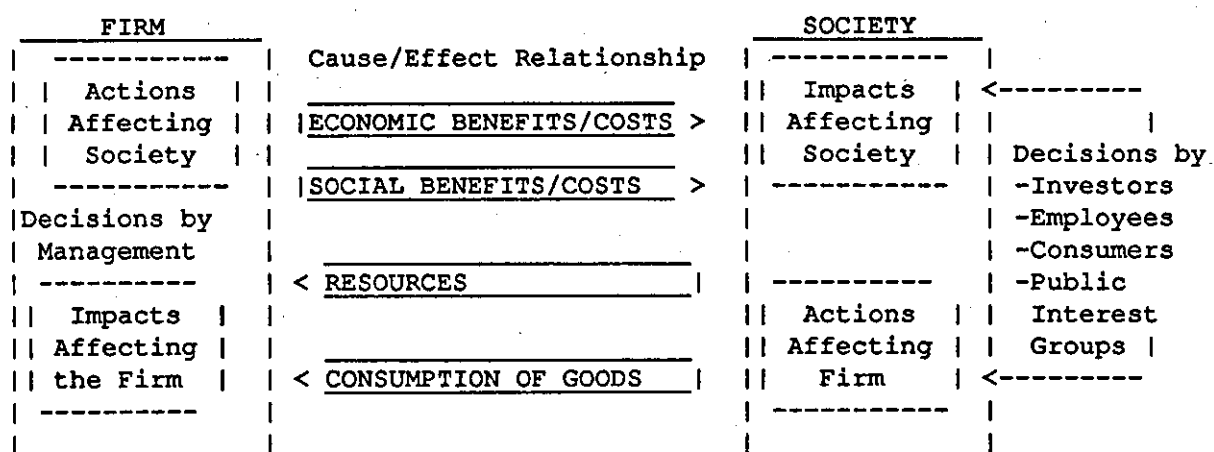
7.22 Mirza and Bell (1982)

Mirza and Bell gave consideration to a framework for 'corporate social performance' although they did not actually give a list of disclosure items. Of interest was their synthesis of the AICPA social contract and Van den Bergh's social resource approaches. The result is produced in diagrammatic form as Exhibit 13.

EXHIBIT 13

The firm and society

Diagram showing Cause and Effect Relationships



The interrelationship of organisation and society is appropriately stressed by this model

Source - Mirza and Bell, p.13

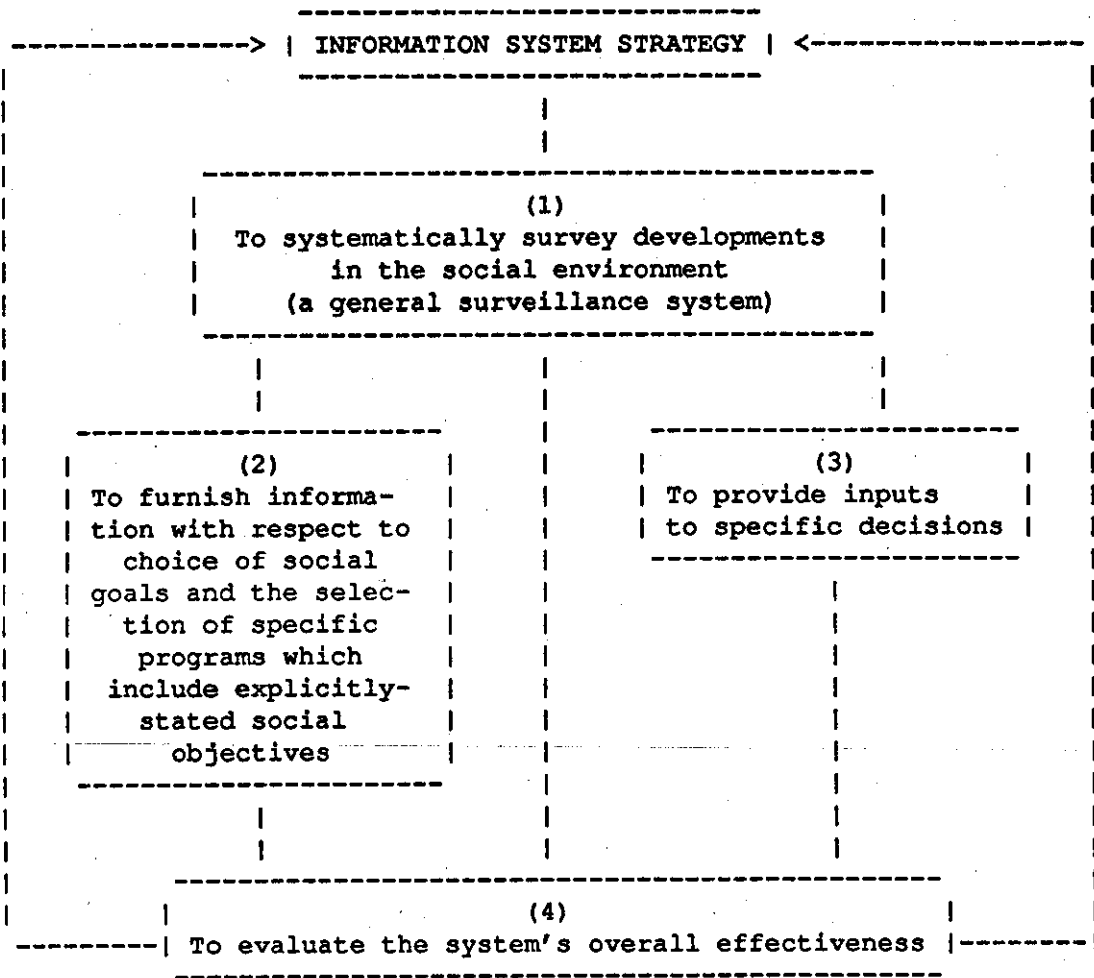
7.23 Burke (1984)

Burke has provided a conceptual model of a social accounting information system (SAIS) which is intended to assist decision makers (the designated users) in selecting from amongst programmes with explicitly stated social objectives. There are five basic guidelines for developing the SAIS including the following reference to social information:

"A precise definition of what constitutes social information should be avoided. The social domain has no natural boundaries. It is preferable, therefore, that social information loosely specified as consisting of that set of information not traditionally regarded as economic, or technological in nature, that deals with people's values, relationship (e.g., laws), behaviour and concerns, that could have an important effect (financial and otherwise) on an organization's performance and the achievement of its goals."²⁷³

Although concerned with the internal decision making function of the organisation, the model put forward by Burke is going to produce SRA disclosures to society in order to signal that environmental and social concerns have been internalised. The model is illustrated in Exhibits 14 to 16. Exhibit 14 details the four primary functions of the SAIS which are; to survey the environment, to provide information on social goals, to provide inputs to specific decisions and to evaluate the overall effectiveness of the system.

²⁷³. Burke, op. cit., p.100.

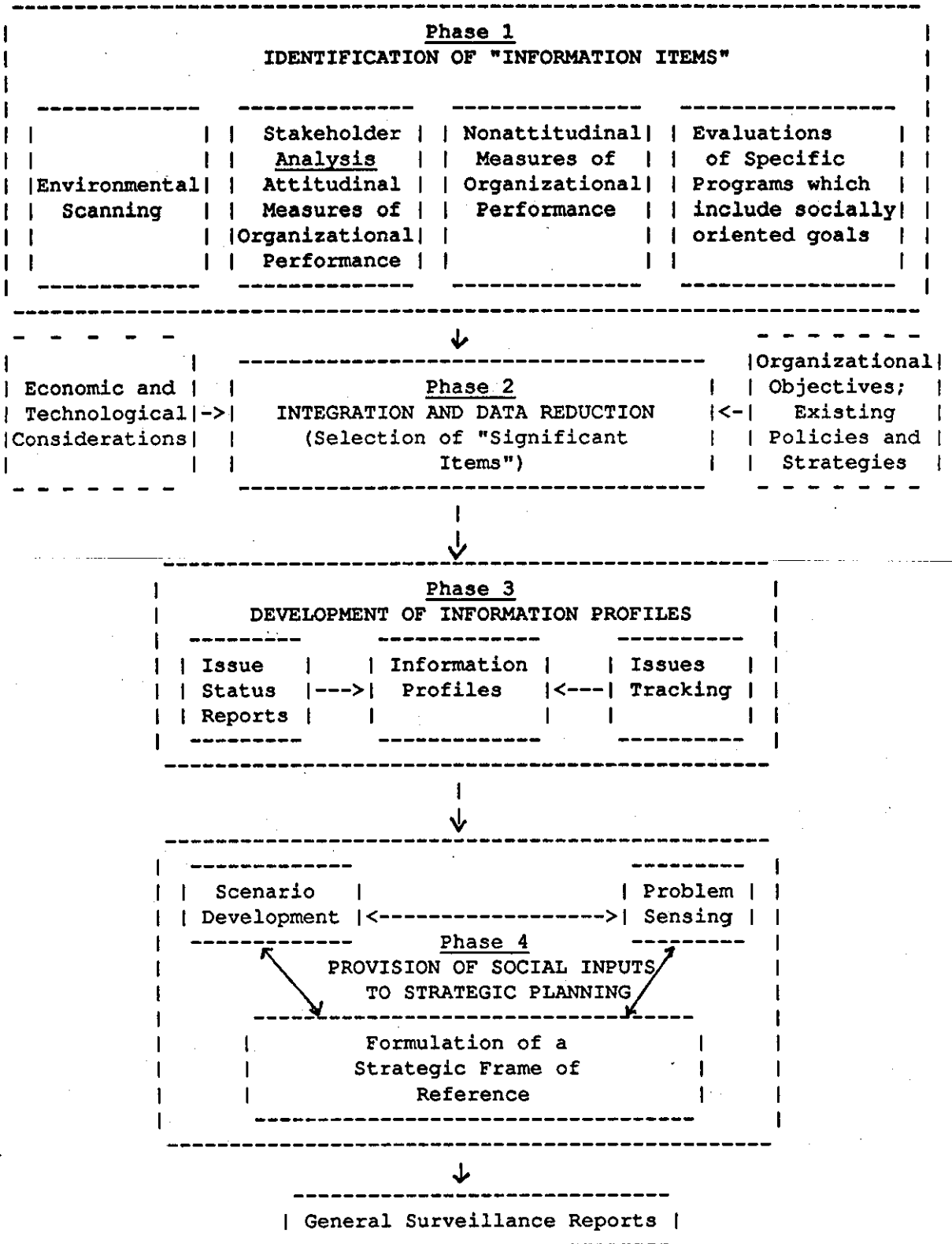
EXHIBIT 14**The Four Primary Functions of a Social Accounting Information System**

Source: Burke, op.cit., p.100.

Exhibit 15 provides a detailed breakdown of the general surveillance component of a SAIS, which is of relevance to the present discussion because one aspect of the surveillance is described as:

"An overall evaluation of corporate social performance including progress reports on company progress."²⁷⁴

²⁷⁴. ibid., p.107.

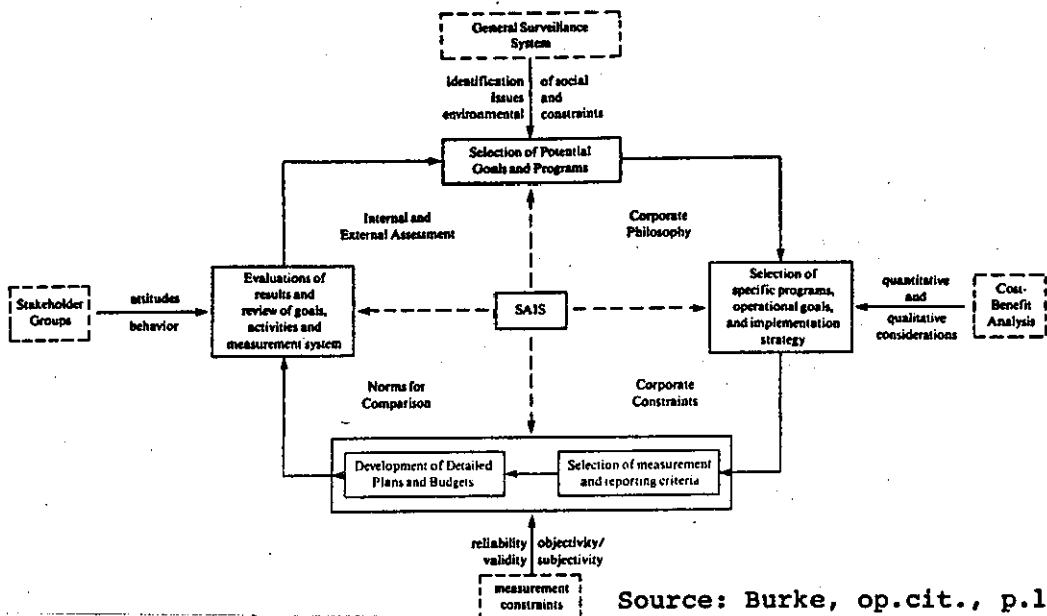
EXHIBIT 15**Activities Comprising the General Surveillance Component of a
Social Accounting Information System**

Source: Burke, op.cit., p.102.

Finally, Exhibit 16 shows the full model with the SAIS related to external factors. It should be noted that ample opportunities exist for the

generation of SRA through the general surveillance system and the internal and external assessment process.

EXHIBIT 16
A Framework for Contemplating Programs
Which Include Explicit Social Objectives



Source: Burke, op.cit., p.109.

7.24 Wartick and Cochran (1985)

Wartick and Cochran argue that there are three challenges to be faced in developing a model for corporate social performance (CSP). These are economic responsibility, public responsibility and social responsiveness. However, even when these challenges have been met a further development is needed, this is termed social issues management.

The model is described as follows and illustrated in Exhibit 17.

"Social responsibility - the first dimension - has been an extremely resilient concept. It has assimilated much of the criticism that has been levied against it. Yet, the two fundamental premises of social responsibility - the social contract and moral agency - remain as the ethical component of social responsibility. Social responsiveness - the second dimension - provides the approach to realising social responsibility. It has become the general means to the ends of satisfying corporate social obligations. Social issues management - the third dimension - is now being developed as the method for operationalizing social responsiveness."²⁷⁵

275. Wartick and Cochran, op.cit., p.767.

EXHIBIT 17**The corporate social performance model**

Principles	Processes	Policies
Corporate Social Responsibilities	Corporate Social Responsiveness	Social Issues Management
(1) Economic	(1) Reactive	(1) Issues Identification
(2) Legal	(2) Defensive	(2) Issues Analysis
(3) Ethical	(3) Accommodative	(3) Response Development
(4) Discretionary	(4) Proactive	
Directed at:	Directed at:	Directed at:
(1) The Social Contract of Business	(1) The Capacity to Respond to Changing Societal Conditions	(1) Minimizing "Surprises"
(2) Business as a Moral Agent	(2) Managerial Approaches to Developing Responses	(2) Determining Effective Corporate Social Policies
Philosophical Orientation	Institutional Orientation	Organizational Orientation

Source: Wartick and Cochran, op.cit., p.767.

Wartick and Cochran were contributing to the management literature at a conceptual level and did not include references to SRA. However, management will require information and a medium through which their concern with principles (the philosophical orientation) may be demonstrated. Traditionally the accounting function has specialised in providing information to both management and outside parties. The model provided here is consistent with the use of SRA in order to facilitate the demonstrated development of corporate social performance and the management of social issues.

7.25 Logsdon (1985)

Logsdon examined organisational responses to environmental issues, particularly the example of oil refining companies and air pollution with U.S. companies. However, the conceptual model she used is introduced here because it illustrates the way in which SRA disclosures may be an important part of the strategies employed by organisations. When confronted by social issues organisational management may react by resisting or accepting behaviour at any of three stages of development of the issue; emergence, legislation and regulation. The resulting matrix of responses is presented as Exhibit 18. SRA may be involved in these activities, but only in a peripheral manner.

EXHIBIT 18**Stages in the Evolution of a Social Issue Integrated with the
Generic Response Categories**

Stages in the Evolution of a Social Issue	Continuum of Responsiveness	
	Resisting	Accepting
Stage 1: Emergence of the Issue	Complete resistance by ignoring the issue, discrediting the issue and its proponents, and shifting responsibility to other parties.	Development of corporate policy and voluntary activities to achieve the social goal.
Stage 2: Legislative Phase	Compromise by offering positive and negative inducements in bargaining for weak legislation.	Technical and administrative learning by specialists and line managers.
Stage 3: Regulatory Phase	Reluctant capitulation by compliance with the minimum requirements as late as possible to avoid heavy fines and close-down, using litigation to delay enforcement.	Institutionalization by incorporating achievement of the social goal into incentive structures of line managers and into capital investment decision-making.

Source: Logsdon, op.cit., p.48.

In examining the behaviour of firms in the oil refining industry over a period of 35 years, Logsdon developed a measure of responsiveness. The responses of corporations (resisting and accepting behaviour) were based upon the aggregation of four components; statements about air pollution by top management; changes in organisational structure to assign responsibility for the issue; technical actions to reduce refinery air pollution and political and legal actions related to air pollution.²⁷⁶

A series of propositions was developed relating the components to the predicted responses in both accepting and resisting patterns. The accepting patterns are shown in Exhibit 19. The relevance of this conceptual model for SRA lies in the propositions for the accepting responses shown in Exhibit 20. Logsdon envisages the use of annual reports to publicise the record of the firm (management statements, stage 3) and

²⁷⁶. Logsdon, op.cit., p.56.

the development of reporting systems to evaluate environmental performance (structural actions, stage 3).

When a corporation adopts a resisting pattern there is unlikely to be a place for SRA disclosures except where they are required by legislation or as part of the measurement process when determining the cost of non or partial compliance.

EXHIBIT 19
Accepting Response Patterns

Component	Stage 1	Stage 2	Stage 3
Management Statements	Acknowledgment of air pollution to and voluntary activities to reduce emissions in annual reports. First corporate policy.	Expand references to air pollution in annual reports and support some form of federal involvement.	Publicize firm's good record in annual reports in pollution control without criticizing legislation and regulations.
Structural Actions	Assign responsibility for air pollution control at all major facilities and at headquarters to monitor corporate environmental activities.	Create full-time environmental affairs units at the corporate level with both external and internal responsibilities.	increase environmental staffs at all levels. Develop reporting systems to evaluate environmental performance.
Technical Actions	Modest amount of voluntary air pollution control activities. Support industry research efforts and begin R&D projects.	More substantial voluntary air pollution control activities and environmental research programs.	Allocate funds for speedy compliance with new regulations. Cooperate with agencies on technical studies to improve standards and equipment.
Political/Legal Actions	Support formation of state and local regulatory agencies.	Support some form of federal involvement in air pollution within API. Make its support public in Congressional hearings and advertising.	Publicize support for federal regulations and refuse to join litigation and coalitions to limit regulators. Cooperate with agencies and challenge violations only with good cause.

Source: Logsdon, op.cit., p.57.

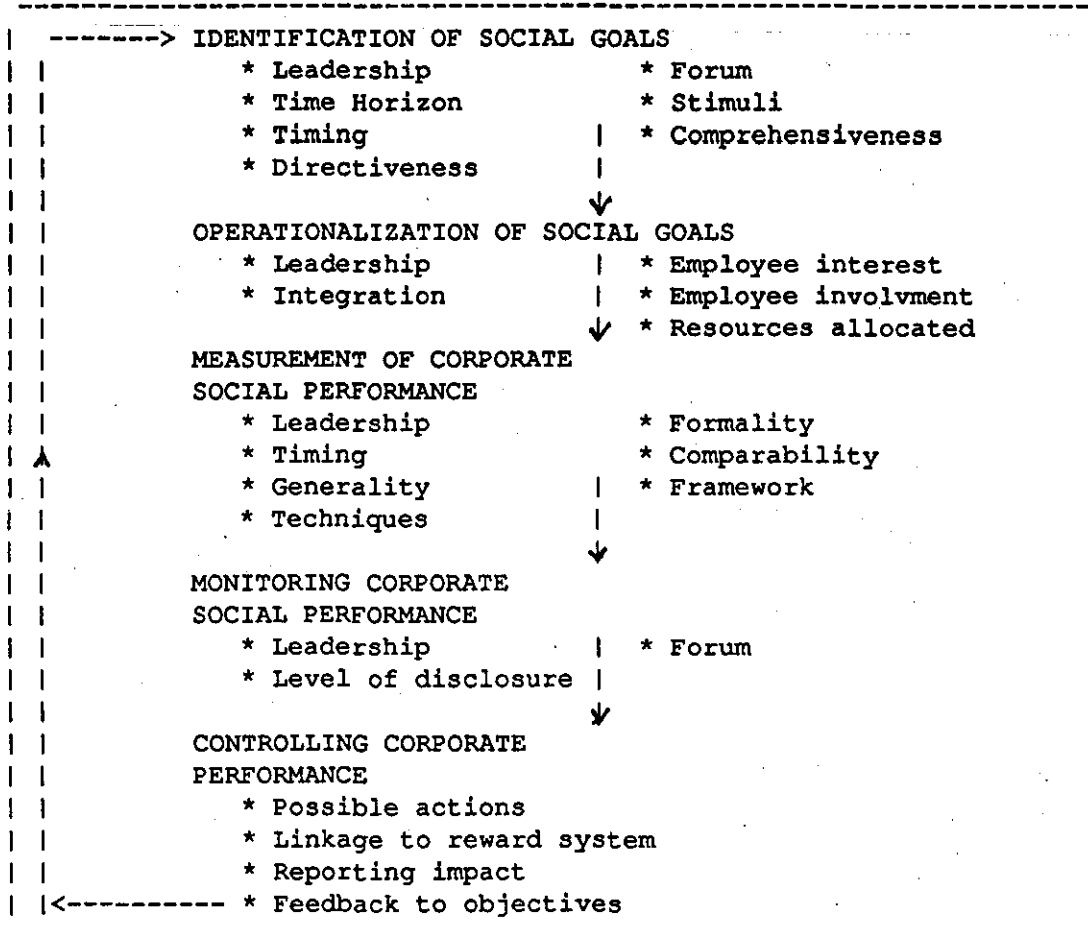
Once management decides to adopt an accepting response pattern the way is clear for the development of appropriate information systems and two-way interaction with the environment. This process will include accounting reports and is part of the generation of a more socially relevant accounting.

7.26 Brooks (1986)

Brooks has provided a comprehensive study of SRA in a Canadian setting including a conceptual model which envisaged the production of regular reports as part of the process of developing, monitoring and controlling corporate social performance (the term used by Brooks). The model for managing corporate social performance is shown in Exhibit 20, whilst Exhibit 21 illustrates the steps by which the social accounting measurement and disclosure system might be implemented.

EXHIBIT 20

A Model for the Management of Corporate Social Performance OVERALL FRAMEWORK established by the Board of Directors



Source: Brooks, op.cit., p.157.

Exhibit 21 envisages a framework for socially responsible corporate activity developed under the direct control of the board of directors. Social goals are identified and operationalised, and social performance is measured, monitored and controlled. Social Responsibility accounting would be involved in the measuring, monitoring, and controlling stages. The measurement and disclosure process is a most important part of the entire operation and involves the accounting function in a permanent and organised relationship and not in an incomplete and ad hoc manner as is often currently the case.

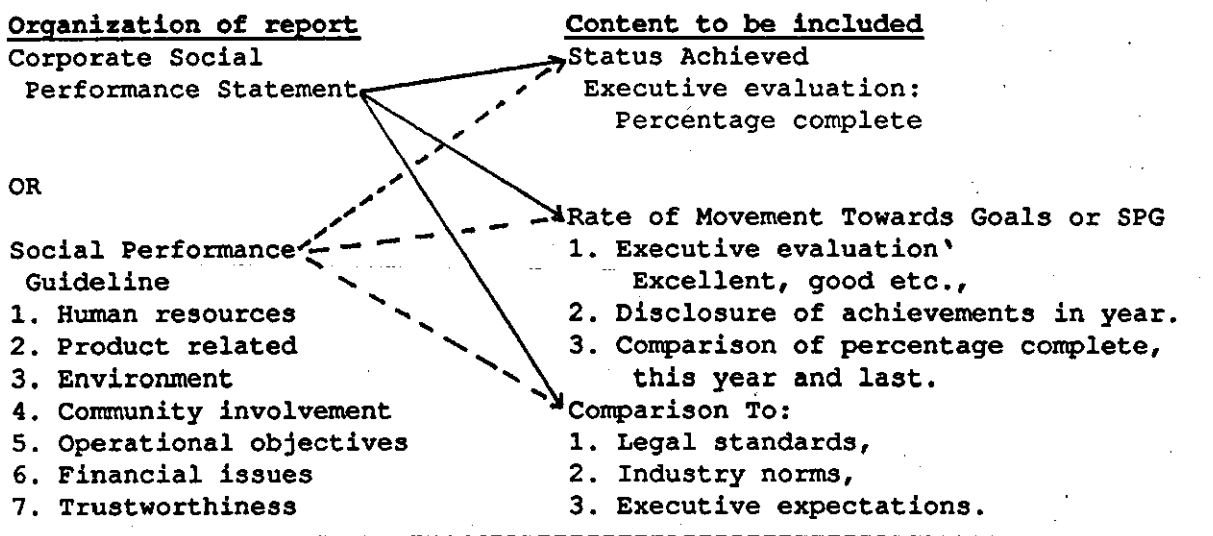
EXHIBIT 21
Implementation Steps for a Social Accounting
Measurement and Disclosure System

Step	Technique or Choice
-----	-----
Develop List of Corporate Impacts on Society	(Thorough <----- (Review
-----	-----
-----	-----
Rank for Importance	<----- (Survey Interest Groups
-----	-----
-----	-----
Choose Measurements	<----- (Social Perf. Guideline <----- (Custom Design for Plan <----- (Single Number Index
-----	-----
-----	-----
Choose Disclosure Format	<----- (Compreh. Soc-fin Ann. Ref. <----- (Suppl. Info in Ann. Rep. <----- (Separate Report <----- (Newsletter
-----	-----
-----	-----
Measure Prepare & Issue Report	
-----	-----

Source: Brooks, op.cit., p.245.

Brooks provides more detail of the information that would be needed in the diagram introduced as Exhibit 22. There is not enough detail for this to be considered as an operational model but the disclosure framework gives some idea of the basic categories involved. There are quite clear indications that Brooks would expect corporations to set goals and measure the degree of completeness obtained, whether against an external standard or an internally determined target. A number of categories in which social performance disclosures may be expected is also included.

EXHIBIT 22
Recommended Corporate Social Performance
Disclosure Framework



Source: Brooks op.cit., p.242.

The three exhibits referred to demonstrate a coherent structure which provides for the development of SRA.

7.27 Gray, Owen and Maunders (1986)

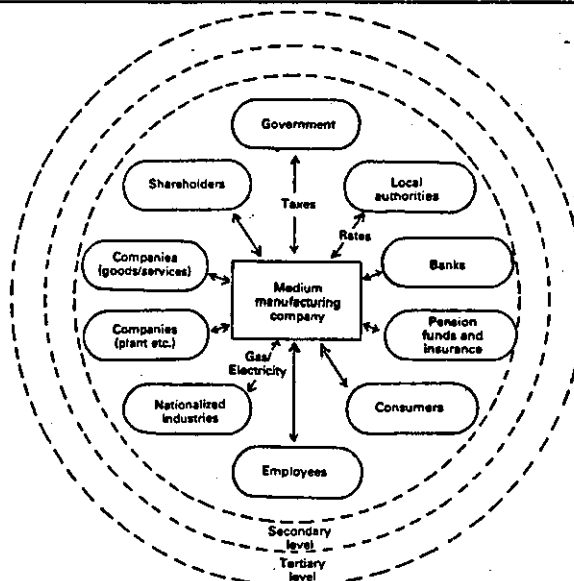
Gray, Owen and Maunders have provided two forms of conceptual model. The first is concerned with the required characteristics of a social report and is developed from a value position of accountability, the accountability of organisations for their impact on society. The required characteristics are listed below:

EXHIBIT 23**Required Characteristics of a Social Report**

1. The report must be accompanied by a full statement of the intended general objectives of the report. The statement should also allow the reader to assess: (a) what selectivity of data has been made and why; and (b) why that particular presentation has been chosen.
2. The objective of a social report should be to inform society about the extent to which actions for which an organisation is held responsible have been fulfilled.
3. The report, its choice of data, emphasis, method of presentation, and availability, should provide information directly relevant to its objectives and in particular to the objectives it holds for the interest groups to whom it is directed.
4. The report should present direct raw (un-manipulated) data that can be understood by a non-expert undertaking a careful and intelligent reading of the report. The report should be audited.

Source: Gray, Owen and Maunders, op.cit., pp.82-83,85.

Although important as an initial statement the set of characteristics does not provide any direction or detail about what should be included (other than general indications). There is a second conceptual model which gives an indication of primary level influences and relationships between the organisation and the environment. These are stated to comprise the traditional accounting relationship but several categories could also benefit from additional non-traditional disclosures including shareholders, employees and consumers.

EXHIBIT 24**Primary level influences of organisational activity**

Source: Gray, Owen and Maunders, op.cit., p.77.

Gray, Owen and Maunders extend their model into the area of externalities which is covered in the section dealing with total impact accounting. The primary level influences may be adapted for use with SRA in conjunction with their characteristics.

7.30 Operational Models Relating to Social Responsibility Accounting

This section describes a number of models which indicate in more detail what should be disclosed in a social responsibility accounting report. These models are designated as operational because of the added detail. However, it is recognised that for some readers sections 7.20 and 7.30 could be merged.

In chronological order the models covered are the Corporate Report,²⁷⁷ U.K. Government Green Paper,²⁷⁸ Cheng,²⁷⁹ the French Bilan Social,²⁸⁰ Jackman,²⁸¹ and the UEC recommendations.²⁸² A number of other detailed models have been excluded from this section because they are considered to be more concerned with TIA than SRA. They will be discussed in chapter nine.

7.31 The Corporate Report (1975)

The corporate report has already been cited as having, as an implicit foundation, a social contract perspective. It specifically does not include social accounting as part of the recommendations for immediate action. The reason appears to be that the corporate report defines social accounting in a manner that corresponds to total impact accounting in this thesis. Social accounting is defined as;

²⁷⁷. op. cit.

²⁷⁸. H.M.S.O., The Future of Company Reports: A Consultative Document ((H.M.S.O., London, 1977)).

²⁷⁹. Cheng, P., "Time for Social Accounting", Certified Accountant (October 1976) pp.285-291.

²⁸⁰. Rey, F., "Corporate Social Responsibility and Social Reporting in France", in Schoenfeld, H., (Ed) The Status of Social Reporting in Selected Countries (University of Illinois, Urbana, Ill., 1978) as cited by Gray, Owen and Maunders, op.cit., pp.27-29.

²⁸¹. Jackman, C.J., "An Accountants View of Social Accounting and Social Disclosure", a paper presented at an Institute of Chartered Accountants in Australia (NSW) professional development course on Social Accounting and Social Disclosure (July 1982).

²⁸². UEC Working Party on Social Reporting, Socio-Economic Information, a report prepared for the 9th UEC Congress, Strasbourg, 1983.

"... the reporting of those costs and benefits, which may or may not be quantifiable in money terms, arising from economic activities and substantially borne or received by the community at large or particular groups not holding a direct relationship with the reporting entity..."²⁸³

and as such should not be required until;

"... acceptable, objective and verifiable techniques have been developed which will reveal an unbiased view of both the positive and negative impact of economic activities."²⁸⁴

Other recommendations for action in the corporate report include a number of areas which are regarded as part of the social responsibility accounting field, including value added statements, employment reports, statements of future prospects, statements of corporate objectives and segmental reporting. These recommendations, which follow on from discussions about the need for accountability and the rights of additional parties to information, would suggest that the corporate report provides a conceptual model for at least some aspects of SRA. The appendices contain a detailed example of an employment report and an indication of what might go into a statement of corporate objectives. In regard to these categories the corporate report might be said to belong in the group of conceptual models reviewed in section 7.20. The impact of the corporate report will be referred to in the sections on employee reporting and value added statements. After some hesitation it has been decided to classify the Corporate Report as operational.

7.32 The UK Government Green Paper (1977)

The U.K. Government green paper refers to social accounting as;

"...a term which covers a range of ideas, many of which are at a very early stage of development. At its simplest it involves reporting, largely on an ad hoc basis, on individual items such as anti-pollution or health and safety measures which may be of

²⁸³. Corporate Report, op. cit., para 6.46, pp.57-58.

²⁸⁴. ibid., para 6.47 p.58.

greater importance for their social impact than for their financial effects on the company".²⁸⁵

This statement, when added to the suggested content of various reports which are given as separate sections, provides a general indication of SRA content. The Green Paper followed many of the ideas put forward in the corporate report, including a statement of added value, an employment statement and references to disaggregation, a statement of future prospects and disclosures of energy usage. Only in the case of the employment report does the Green Paper appear to be operationalised in any way. The Green Paper is a limited conceptual model of what SRA disclosures should include.

7.33 Cheng (1976)

Cheng has argued for a "Statement of Socio-Economic Operations", the purpose of which is expressed as follows:

"The essential concept of the statement of socio-economic operations is to include what a business organisation has given to or held back from society. The statement is a tabulation of these expenditures made voluntarily and involuntarily by a business aimed at improving the welfare of employees, or public safety of the product, or conditions of the environment. Offset against these expenditures would be negative charges for social action that is not taken but should have been taken."²⁸⁶

The Cheng statement of socio-economic operations would be divided into three parts; "Internal Activities in Domestic Operations"; "External Relations in Domestic Operations," and "Socio-Ethical Considerations of International Operations." The section on Internal Activities in Domestic Operations refers to activities in areas like job training programmes, employee safety and health improvements, improvements to working conditions and efforts to conserve energy. The "External Relations in Domestic Operations" section would include contributions to charity, the installation of pollution control devices, public-education programmes, loans to students, recycling of material and measures of consumer satisfaction.

²⁸⁵. H.M.S.O., op.cit., p.16.

²⁸⁶. op.cit., pp. 290-291.

In his statement on "Socio-Ethical Considerations of International Operations," Cheng would include the development of human resources, the provision of technological assistance, attempts to improve agricultural productivity and raise living standards in certain regions as well as statements on corporate morality and realistic sales and profit goals. Many of the ideas contained in the Cheng framework can be used in SRA, although a limited number would appear to be more appropriate to total impact accounting because they involve the valuation of externalities.

7.34 The Bilan Social (1977)

The Bilan Social dates from 1977, although as Gray Owen and Maunders noted the origins may well have been in the 1968 social unrest in Europe. Legislation required companies with more than 750 employees to publish social balance sheets from 1979. Subsequent amendments mean that starting in 1982 companies with more than 300 employees have to make a report. Over 7000 French companies are now covered by this legislation.

Gray, Owen and Maunders noted that:

"French social balance sheets are exclusively concerned with employment related issues. Information has to be provided under the following seven headings:

- number employed
- wage and fringe benefits
- health and safety conditions
- other working conditions
- education and training
- industrial relations
- other matters relating to the quality of working life to cover the current year and two preceding years."²⁸⁷

The amount of information to be disclosed varies according to the size of the company and other factors and some reports may be quite large, but they are not audited.

7.35 Jackman (1982)

Jackman²⁸⁸ produced a very large volume of detail in establishing his framework for disclosure. It was suggested that businesses may take action

²⁸⁷. Gray, Owen and Maunders, op.cit., p.28.

²⁸⁸. Jackman, op.cit., Exhibit 2.

to improve their reporting to society in the following areas: economic growth and efficiency; education; employment and training; civil rights and equal opportunities; urban renewal and development; pollution abatement; conservation and recreation; culture and the arts; medical care and government. However, reporting should follow the "Social Audit Check List" given below.

EXHIBIT 25
Social Audit Check List

Employee Relations

- (a) Health and safety of employees-
 - accident records
 - medical services
 - toxic hazards (if any)
 - noise levels
 - recreational facilities
- (b) Information to employees -
 - policy on unionisation
 - recruitment and promotion policies
 - remuneration policies
 - training and re-training policies
 - job enrichment programmes
 - company plans and objectives
- (c) Redundancies-
 - re-training facilities
 - compensation policy
- (d) Training programmes-
 - number of people in various grades receiving training
 - effectiveness of training programmes
- (e) Employment of special groups-
 - disabled persons
 - women
 - ex-prisoners
 - minority groups

Consumer relations

- (a) Production information-
 - pricing policy
 - date marking
 - ingredient labelling
 - nutritional labelling
 - measure of contents
 - nature of processing
- (b) Product safety
 - details of test methods
 - amount spent on research
 - results of any animal and human trials

- (c) Product performance-
 - technical support for advertising claims
 - number of complaints received from the public
 - details of complaint handling procedures
 - justification for selling certain products

Environmental aspects

- (a) Air pollution-
 - plants involved
 - rate of emission
 - type of emission
 - action taken in response to complaints
- (b) Waste disposal-
 - discharge into rivers, sea, sewers, etc
 - nature and composition of effluent
 - steps taken to purify waste
- (c) Noise-
 - levels of noise in factories and residential areas
 - nature of equipment used to minimise noise
- (d) Conservation and re-cycling-
 - use of scarce resources and over-packaging
 - use of re-cycled bottles, jars, paper and other packaging materials
 - disposability of packing materials

Relations with governments

- (a) Financial information-
 - currency movements
 - payment of taxes
 - criteria for making donations to charity
 - criteria for sanctioning investment in new projects
- (b) Participation with government-
 - policy on joint ventures etc.

7.36 UEC Recommendations (1983)

The Union Europeene de Experts Comptables, Economiques et Financiers (UEC) established a working party to make recommendations on the content of social reporting. This is given below as Exhibit 26, the formal structure was intentional in that the UEC desired to bring the rigour of traditional financial statement preparation, including the external audit, to social accounting statements.

EXHIBIT 26**UEC's recommended form of social reporting**

1. **A summarized statement** An outline of the most significant aspects of the social performance of the enterprise over the year together with a statement of principal objectives and review of prospects for the following year.
2. **A social report** To be composed solely of quantitative indicators, the precise nature of which is not specified, in the following nine areas:

(a) Employment levels)
(b) Working conditions) The relationship
(c) Health and safety) between the
(d) Education and training) enterprise and the
(e) Industrial relations) work-force
(f) Wages and other employee benefits)
(g) Distribution of value added)
(h) Impact on the environment)
(i) The enterprise and external parties) The relationship
(shareholders and other providers of) between the
capital, local and national government,) enterprise and
customers and suppliers)) society
3. **Notes to the accounts** Explaining where necessary the methods and principles used in calculating the figures appearing in the social report, giving full information on any changes of method and indicating the effect of the change on the results shown, and defining terminology used.

Source: Gray, Owen and Maunders, op.cit., p.22.

7.40 A Review of the models presented

The conceptual frameworks or models examined here are very diverse and it is difficult to obtain a common pattern from them, other than a concern for accountability to society in a wider sense than is practiced at present. Ramanathan was concerned to to define the terms employed in considering social reporting, Mirza and Bell were concerned with establishing an interrelationship between the firm and society. Burke has provided one of the more involved models in that he attempted to cater to both external users and internal decision makers. He recognised that ultimately the two groups are connected in that the users need to be reassured that, in the long run, the decision makers are taking cognizance of social issues in making decisions.

The Wartick and Cochran approach, which was not reported in the accounting literature, traces the development of the area that they call corporate social performance. The significance of this work for SRA lies in the way in which the development of social responsibilities, social responsiveness and social issues (as perceived by management) generate opportunities for the corresponding information and reporting systems. Logsdon also contributes to the management rather than the accounting literature, but

her paper demonstrates the extent to which the stance taken by management will extend or limit the opportunities which accountants may have, to extend their range of reporting services to management for decision making purposes, or to the public, in the form of accountability statements.

Brooks provided a comprehensive model which moved from an overall framework developed by the board of directors, through implementation steps for a social accounting measurement and disclosure system to a recommended disclosure framework. Finally, Gray, Owen and Maunders have offered guidelines for developing social reports.

In terms of the content of operational models it appears that some or all of the following topics might be included: Employee related information, pollution and environmental protection data, product safety, energy usage, research and development activity, productivity statistics and community projects and relationships.

Employee related information may appear in the form of employee reports, or human resource accounting, or in the case of Continental Countries reports to Works Councils, the first two of which are discussed in separate sections below. General social responsibility disclosures might include details of the workforce such as ages, location of workplace, sex, average pay scales, and trade union membership. In addition fringe benefits might be given together with opportunities for training and advancement within the organisation. Details of the safety performance of the organisation might also be appropriate.

Pollution and environmental protection data is included in some models, particularly where an organisation is part of what has been generally regarded as a polluting industry. Where a firm does not volunteer the environmentally related information, it may be provided by an outside body, such as the Council on Economic Priorities (CEP)^{289, 290} in the United States. The data required is that corresponding to the AAA levels I and II discussed previously, thus providing details of pollutant or potential pollutant discharge in parts per million or Pounds or Gallons or other

289. Stevens, op.cit.

290. Shane, B.P. and Spicer, B.H., "Market Response to Environmental Information Produced Outside the Firm", The Accounting Review, Vol. LVIII No.3 (July 1983) pp.521-538.

physical measure. These details may be in absolute terms or for comparison with government standards, or organisational performance in previous periods. After the collection of suitable information, comparison may be made with long-term organisation performance or with industry averages.

Organisations are encouraged in some instances to make reference to improvements in product safety. However, this is an area where it is difficult to separate informative reporting from forms of self-congratulation or institutional advertising.

Energy usage might also be disclosed, in both monetary and non-monetary terms: Monetary disclosure as part of the regular accounts and non-monetary measurements as SRA. The information could also be re-organised to demonstrate savings, in the case of a production operation, by means of units of output per unit of energy used. This approach is represented in the literature by Roth,²⁹¹ Scudiere,²⁹² and Gartenberg.²⁹³ One argument in favour of disclosing non-financial measurements of energy usage is that it avoids the problem of energy pricing and valuation. The cost of energy has altered dramatically in the last ten years in response to market imperfections and the actions of OPEC countries. It is impossible to make monetary comparisons between periods without using an index. In the absence of a general agreement on indexed financial reporting the use of non-financial measures would appear to be appropriate.

The disclosure of organisation activity in the field of research and development is often regarded as one of the most sensitive areas, and for obvious reasons of confidentiality does not appear very often. The disclosure of monetary amounts for total expenditure might be feasible, if all organisations were required to make the same information available. However, the reader would not learn a great deal from this information unless segmented reporting were introduced at the same time. Non-monetary information about a firm's research and development activities could include the number of projects in the research stage, projects in the

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- ²⁹¹. Roth, H.P., "A New Outlet for Energy Audit Data - Reporting Energy Usage as Social Accounting Information", The Journal of Accountancy (August 1981) pp.68,71,73-74,79,80-81.
- ²⁹². Scudiere, P.M., "Justifying Proposals to Save Energy", Management Accounting (March 1980) pp.42-48.
- ²⁹³. Gartenberg, M., "How Dow Accounts for its Energy Usage", Management Accounting (March 1980) pp.10-12.

development phase, the number of patents held and applied for, the numbers and types of personnel engaged on various projects and new products or services coming on-stream in the next accounting period. Of course it is unreasonable to expect this form of detailed disclosure in any competitive economy by any single firm no matter how concerned management may be about social responsibility, and some form of social accounting standard or even legislation may be necessary if widespread disclosure is to be achieved in this area.

The productivity performance of an organisation could be of considerable interest to a wide variety of readers without being too destructive of confidentiality. The issue of productivity in Western economies, compared with that obtained in some of the newer industrialised nations, is topical and likely to remain so for some time. The organisation could develop measures of productivity which are free of bias or confidential information. These might be units of production per man-hour worked, tonnes of material mined, or converted, per man-shift or per machine hour. It would be important that meaningful figures are used, involving the desired output of the organisation related to a limiting factor involved in producing the goods or service or to the capital employed. An example of the latter type would be units of output per \$1,000 of capital invested. Many measures could be developed for specific industries or organisations.

Measures of community welfare and good neighbourliness, are often high on any list of social responsibility accounting disclosures discussed in the literature. Items such as contributions to charity, local rates and taxes paid, training programmes for local employees, recycling of waste products, and contributions to sporting and educational organisations would be good examples. Many U.S. corporations produce social reports to publicise these activities.²⁹⁴

However, it must be recognised that disclosures under this heading would have to be full and frank, rather than biased towards only the "good news". Disclosure of social responsibility should be practiced fully, or not at all. Furthermore, the public reaction to particular biased information may

²⁹⁴. See for example Social Performance 1980 and 1982 produced by the Rainier Bank Corporation Seattle, U.S.

not be what the organisation wants or perhaps expects. This aspect of SRA has not been investigated as far as the author is aware. Wiseman provided examples of reports which are not full disclosures and which may well be misleading. She concluded:

"The findings indicated that the voluntary environmental disclosures were incomplete, providing inadequate disclosures for most of the environmental performance items included in the index. Further, it was demonstrated that no relationship existed between the measured contents of the firms' environmental disclosures and the firms' environmental performance".²⁹⁵

There is clearly a role for a social auditor, despite the reluctance of accountants to become involved in this area. The concept of the social audit is included in chapter eight. Particular aspects of SRA models and disclosures are discussed in sections 7.50 to 7.80.

7.50 The Role of Management Accounting in the preparation of Social Responsibility Disclosures

A majority of the models included in the above discussions clearly relate to the external reporting of social responsibility disclosures by corporations. One attempt at formulating a model in terms of the contribution of management accounting is reviewed below.²⁹⁶ The discussion recognises that some models do indicate an awareness of the importance of management accounting and social responsibility even though the main thrust is directed towards external reporting.

A number of studies have also indicated the need for a management accounting input to the development of social responsibility disclosures. Ramanathan commented that:

"To the extent that a firm's social impacts are not subjected to formal measurement process, these aspects are not likely to enter into the firm's planning decisions or performance evaluation".²⁹⁷

295. Wiseman, op.cit., p.62.

296. Schafer, E.L. and Mathews, M.R., "The Management Accountant and Social Responsibility Disclosures", Mississippi Business Review, Vol.46 No.3 (September 1984) pp.3-6.

297. Ramanathan, op.cit., p.516.

Epstein, Flamholtz and McDonough argued that a larger number of reports are produced for internal use than the public is aware of, because many are not issued for external consumption. The public is left with an impression that corporations only use social responsibility accounting for external purposes.²⁹⁸

Although these references suggest that the authors have a firm basis for their statement about the relative emphasis of internal and external reporting, in conclusion they say-

"We need to know more about:

(4) the extent to which corporations are using accounting for social performance for decision making and performance evaluation at different levels in the organization, including the evaluation of (a) individuals, (b) divisions and (c) the corporation as a whole".²⁹⁹

It will be argued in this section that management accountants need to be involved in social responsibility disclosures, whether they are intended for internal or external consumption. This is especially the case where, as Preston noted;

"(1) the value of a corporate social reporting activity depends upon its usefulness to management;

and

(2) there are available techniques for developing social performance information that will have continuing managerial usefulness over time.³⁰⁰

298. Epstein, M., Flamholtz, E. and McDonough, J.J., "Corporate Social Accounting in the United States of America: State of the Art and Future Prospects", Accounting, Organizations and Society, Vol.1 No.1 (1976) p.28.

299. *ibid.*, p.35.

300. Preston, L.E., "Research on Corporate Social Reporting: Directions for Development", Accounting, Organizations and Society, Vol.6 No.2 (1981) p.262. (original emphasis)

Now that it has been established that a number of noted writers in the field of SRA are equally as concerned with the internal reporting of social responsibility data, as they are with external reporting, it is appropriate to consider these internal aspects in more detail.

7.51 Strategic and operational planning procedures

Senior management should be responsible for major and far reaching actions in respect of strategic planning. Objectives which may be adopted at this level are translated into strategic plans of a broad nature, examples might be "to move into international marketing" to "retrench plant X" or to "cease manufacture of product Z". Once the strategic decision has been taken the operational planning procedures will tend to fill in the details and operationalise the strategic decision. The models presented by both Brooks and Burke introduced the social dimension to the decision making activity.

The same procedure should be adopted in respect of social responsibility disclosures, whether destined for ultimate consumption outside the organisation or for use as an internal report. Examples of strategic decisions applied to social responsibility matters might be expressed as "to improve our accident record" or "to have a particular change in the hiring record for minorities" or "to have a less damaging effect on the environment". In any event it is extremely important that senior management should be seen to have instigated the process. This will ensure that policies on SRA disclosures have an opportunity to proceed to the operational phase. This process is shown in Exhibit 27.

EXHIBIT 27The Relationship between Strategic and Operational Planning for Social Disclosures, (partial only)

I OBJECTIVES	i. organisational survival,
	ii. maximisation of long term returns to shareholders,
	iii. satisfying returns to all parties involved in the enterprise.

converted by top management into

II STRATEGIC PLANNING - by senior management -examples	i. to improve our safety record,
	ii. to operate with less environmental impact,
	iii. to generate a better relationship within our community.

reduced to targets for:

III OPERATIONAL PLANNING - by lower levels of management	i. to develop areas and measures through which safety performance may be improved; these include records, education performance charts, and departmental measures.
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To operationalise a decision to utilise social responsibility disclosures will require management to set general areas within which to operate. Subsequently, specific planning measures must be generated within these areas. A limited number of suggested areas and measures are given below.

EXHIBIT 28The Relationship of Reporting Areas and Planning Measures

<u>Areas</u>	<u>Planning Measures</u>
1. Environmental	i. Liquid, solid, gaseous, discharge in physical measures such as lbs. and gals. ii. Specific measures of particular materials-parts per million (ppm) of toxic gases for example.
2. Product Utility /Reliability	i. Number of complaints from customers. ii. Reactions from consumer bodies. iii. Reports from independent consultants.
3. Energy Efficiency	i. Cost of Energy used. ii. Specific measures of energy used in physical terms for particular areas. iii. Cost of energy per unit of output.

- | | | |
|---|------|--|
| | iv. | Energy used to output ratio in specific plants and cost centres. |
| 4. Productivity per unit of individual employee or plant time | i. | Physical output in terms of process time. |
| | ii. | Physical output in terms of employee time. |
| 5. Employee/Employer Relations (Unions where applicable) | i. | Official disputes as a proportion of normal working time. |
| | ii. | Unofficial disputes as a proportion of normal working time. |
| | iii. | Use of agreed grievance procedures by employees. |
| 6. Employee conditions /safety management | i. | Lost time accidents involving serious injury. |
| | ii. | Time lost through minor accidents, analyzed by plant, division, etc. |
| 7. Research and Development | i. | Number of patents held. |
| | ii. | Number of active researchers. |
| | iii. | Number of projects at various specified stages of development. |
| 8. Community Activity | i. | Specific measures of community service scholarships, loans, provision of equipment and personnel, sponsorship etc. |
| 9. Minority Employment | i. | Employment at different levels within the organisation. |
| | ii. | Comparison with previous employment records and those of other organisations. |

The areas and measures listed above are only a sample of those from which operational management might choose a final regime. Each organisation would have to develop specific, as well as general, planning measures, to deal with problems within identified areas. The sequence of strategic planning decisions, followed by operational planning and action, leads naturally to the use of these measures for control purposes.

7.52 Control Systems

The use of budgetary control systems must be acknowledged as a most important characteristic of the modern organisation. The principles of these systems may be applied to the social responsibility measures discussed above. The operational planning process outlined above would be applied to divisions, departments, and sections and leads logically to the development of budgets for social measures as well as for physical and

financial quantities. Thus, it is possible to budget for an accident record or a particular level of injuries in much the same way as for any other operational input to output relationship. Another example might be a budgeted improvement in environmental impact by reducing the discharge of a particular pollutant, even where the present output is below required (or statutory) levels. Budgets developed in the manner described may be flexed in the usual way to allow for activity levels above or below those originally envisaged. Furthermore, using a system of planning budgets will ensure that an appropriate recording system is established and maintained, since operational management will need to show compliance with the budget. Once the fixed (planning) budget is adjusted for actual activity (flexed), a comparison of budgeted and actual results is possible. The variances developed as a result of this comparison have the same strengths and weaknesses as control devices as those developed from the physical and monetary measurements. The variances from budgeted safety or environmental impact performance must be investigated if outside significant limits. The development of variances may have a particular importance for the measurement of divisional performance.

7.53 Divisional Performance Measurement

The measurement of divisional performance and the subsequent control of divisional management from a central position are acknowledged to be difficult problems. Divisional management has been assessed in the past by means of highly condensed financial aggregates such as return on capital employed (ROCE) and to some extent this system continues in operation. However, undue reliance upon this type of measure can lead to dysfunctional actions in terms of overall corporate performance. A number of undesirable practices may result, including a reduction in the level of maintenance and research and development, the sale of currently unused assets, and sometimes managerial decisions which lead to higher output in the short term. These actions may produce a disaffected workforce and industrial disputes in the longer term.

The use of social responsibility accounting measures in divisional performance measurement may help to overcome the limitations of ROCE (or similar financial measures such as ROI). The package developed might include measures of employee morale (turnover of personnel) as well as research and development, safety, and environmental impact (measures of pollutants). These SRA measures would be disclosed in addition to the more

traditional financially based measures. The evaluation of divisional performance would then be seen by the management concerned as balanced and aimed at the longer term, in which case many of the dysfunctional consequences of unidimensional measures may be avoided.

The usefulness of social responsibility accounting systems designed and operated by management accountants, for control and performance evaluation, is probably a sufficient reason for their introduction. However, if further support is needed then we can turn to the valuation of the firm and the efficient market hypothesis.

7.54 The Value of the Firm: the Efficient Market Hypothesis

The Efficient Market Hypothesis (EMH) indicates that all available information about an organisation may be impounded into the share price. Consequently, it is not possible to obtain abnormal returns on stock prices taking the market as a whole. This means that although financial accounting reports are important declarations of stewardship, they cannot be used to obtain a higher than average rate of return since the information contained in the accounts is immediately impounded into the price once it is made publicly available.

Management may be able to influence the market reaction to the company's shares by means of press releases, interviews, and other forms of media intervention. These would include the release of favourable social responsibility disclosures. In this way the production of social reports is calculated to influence market opinion.^{301, 302} However, if we believe in the strong form of the EMH all information, published or not, is going to be impounded by the market. This means that unfavourable social responsibility measures, which would often not be disclosed, would still have an effect on the market performance of shares. This feature of the EMH can be turned to advantage by proponents of SRA in that any management endeavours to set down operational strategies for social responsibility disclosures will be recognised even though no formal external reporting systems are intended. It is argued by the strong form of the EMH that

³⁰¹. Spicer, B.H., "Investors, Corporate Social Performance and Information Disclosure: An Empirical Study", The Accounting Review (January 1978) pp. 97-111.

³⁰². Stevens, op. cit.

there is a nexus between management performance and share price whether or not this is desired by management and management accountants. The only way to turn this into a positive factor is to demonstrate management's concern for all aspects of organisation performance; personnel, environment, community, and product, as well as short-term financial actions. This is best achieved through a social responsibility accounting system including objectives, strategies, standards, budgets, performance measurement and variance analysis, and divisional performance measurements.

7.55 Summary

This section has examined the issue of SRA from the management accounting point of view. This contrasts with the usual financial accounting perspective, and a number of authorities within the SRA literature have indicated the importance of management accounting to the development of the area. However, there is some doubt about how much SRA is performed for management purposes and not disclosed in accounting reports.

It has been suggested that management accountants should take an active role in developing objectives, strategic and operational policies and standards for SRA. This would enable budgetary control systems and variance analysis to be used to ensure adherence to previously agreed standards, in the areas normally included in SRA, in particular those connected with employees, safety, product improvement, community relationships, energy usage and environmental impact. An additional benefit could come from a more balanced system of divisional performance evaluation for segregated management structures.

A final argument in favour of management accountants establishing and controlling SRA systems is the EMH. If the strong form is accepted, this would ensure that all management actions are impounded in the market price of the shares. Management accountants would be able to have a direct impact on share prices through the way in which the SRA system is operated. If the semi-strong form holds then the experience gained in developing SRA data for internal use may be used to provide external reports for use in the market place.

A discussion of SRA would be incomplete without consideration of four areas which are frequently treated independently, although probably belonging under this general heading. These are employee reports, human resource

accounting, accounting for industrial democracy, and value added statements which are dealt with below.

7.60 Employee Reports

Employee reports form part of the SRA field as defined in this thesis. However, the gain in popularity in Australia and the United Kingdom (UK) has led to a specialised literature for this sub-group. Despite an increase in popularity, employee reports are voluntary, unregulated and unaudited disclosures. Consequently, quality varies and there is no uniformity of use within different industries. The approach taken by the French Bilan Social and other European Countries is based upon legislation, and is quite different from that of Anglo-American accounting.

Many of the items which Cheng included in his first statement (internal activities in domestic operations)³⁰³ are to be found in employee reports or employment statements.³⁰⁴ The UK Government Green Paper includes a section on employee statements, separate from the entry on social accounting.—In the case of the employment statement:

"What is proposed is that companies should publish an employment statement which sets out information about its workforce and employment policies which are relevant not only to employees themselves but to shareholders and others concerned with the company. The aim is to provide sufficient information about the workforce and about the way in which the employment resources are managed to give an indication of the effectiveness of management in this crucial area of the company's activities..."³⁰⁵

Examples of suitable information include numbers of employees joining and leaving the organisation; employment and training policies; matters relating to trade unions and participation in decision making; the number of man-days lost as a result of industrial disputes; pension and sickpay arrangements; and employment opportunities for the disabled.

³⁰³. Cheng, op.cit.

³⁰⁴. Taylor, D.W., Webb, L. and McGinley, L., "Annual Reports to Employees - The Challenge to the Corporate Accountant", The Chartered Accountant in Australia, Vol.49 No.10 (May 1979) pp.33-39.

³⁰⁵. H.M.S.O., op.cit., p.9.

The Green Paper does not distinguish between employment reports which are about employees, and a part of the annual report to shareholders, and employee reports which are made to employees. Both may be considered part of the SRA disclosures. Although much of the information would be common to both reports, they have different objectives. The employee report is usually designed to present employees with a variety of items of information not otherwise available to them. The employment report is a part of the annual report to shareholders and could be used where no employee report is issued.

The incidence and content of employee reports have been discussed in the accounting literature in Australia, New Zealand and the U.K. Published work includes examples of current practice, the attitudes of employers, employees and trade unions towards employee reports and some attempts at a normative framework for employee reports.

In Australia, Taylor, Webb and McGinley³⁰⁶ and Webb and Taylor³⁰⁷ reported on the information given in company reports. They referred to a lack of uniformity and quality in the disclosures. Hussey and Craig³⁰⁸ and Craig and Hussey³⁰⁹ conducted surveys of employees and employers respectively. The information sought from employers was designed to obtain a profile of current reporting practices. In the survey of employees, they were asked what they would like to see in employee reports, and the extent to which they understood the material given in actual examples. Follow-up interviews found that many employees did not understand the material provided as well as they had indicated in the responses to their questionnaire.

The problem of readability of employee reports, an important part of the report's understandability, has been investigated by Pound.³¹⁰ The results were interesting and also disturbing, since it was found that many employee

306. op.cit.

307. Webb, L., and Taylor, D.W., "Employee Reporting - Don't Wait for It", The Australian Accountant (Jan/Feb 1980) pp.30-34.

308. Hussey, R. and Craig, R., "Employee Reports - What Employees Think", The Chartered Accountant in Australia, Vol.49 No.10 (May 1979).

309. Craig, R., and Hussey, R., Employee Reports: An Australian Study (Enterprise Australia, Sydney, 1981).

310. Pound, G.D., "Employee Reports - Readability", The Australian Accountant (December 1980) pp.775-779.

reports are written in a way which would render them incomprehensible to a large proportion of the target audience. The basis for this type of research has been extended through recent work by Lewis, Parker, Pound and Sutcliffe.³¹¹

It has been observed in respect of general SRA disclosures that most of the literature was devoted to descriptive analysis and empirical studies, with correspondingly little attention to providing a normative framework. The same general comment can be applied to employee reporting. However, two studies should be briefly summarised. Jackman provided for employee reports as part of his social audit.³¹² The most important information excluded from his extensive list of data is simplified financial information, which frequently provides the basis for employee reports. Financial information would probably include value added statements, which are included in Jackman's paper, but not as a part of the social audit check list. Lewis, Parker and Sutcliffe³¹³ have suggested a framework which would provide a better foundation for research into financial reporting to employees. The authors indicate dissatisfaction with much of the work previously carried out. The research framework is designed to assist future efforts in the area by providing several critical propositions, which they argue must be examined in order to make any meaningful progress. They are; Employees do not require "employee reports"; employees do not require "employee reports" for any decision-making purposes; certain specific employee decision categories are not representative of significant employee decision types; employees do not require information for 'other' (non-decision making) purposes; employees are not familiar with the concept of employee reports; "employee reports" received by employees are perceived as management propaganda vehicles; and, "employee reports" have in the past supplied employees with the particular types of information which they require.

³¹¹. Lewis, N.R., Parker, L.D., Pound, G.D. and Sutcliffe, P., "An Analysis of Accounting Report Readability: Corporate Financial Reports to Employees, 1977-80", a paper presented to AAANZ Conference, Brisbane (1983).

³¹². Jackman, op.cit.

³¹³. Lewis, N., Parker, L.D. and Sutcliffe, P., "Financial Reporting to Employees: Towards a Research framework", Working Paper No.7 (Department of Accounting and Finance, Monash University, September 1982).

Little work of this nature has been carried out in New Zealand. Chye³¹⁴ provided a review of the literature and a limited number of examples of company employee reports from 1980 annual reports. Smith and Firth³¹⁵ surveyed employees and found that most of the respondents welcomed the reports, and thought that they understood them, but wanted more future oriented and non-financial quantitative information.

In the U.K. Purdy³¹⁶ has examined the provision of financial information to employees with a particular emphasis on the environmental and organisational pressures which may induce companies to produce employee reports. Purdy included in his study a reference to the style of management and the degree to which management attempted to obtain feedback from the production of employee reports and the disclosure of financial information.

Hussey³¹⁷ has considered several aspects of U.K. employee reporting including the perception of employee reports by employees. Jackson-Cox et. al.³¹⁸ have examined the place of information disclosure so far as it impinges on the industrial relations strategies of corporations and trade unions and the development of a code of practice for the disclosure of information.

Employee reports are difficult to classify. Do they belong to the field of financial reporting, or to that of social responsibility accounting, or both? There is usually a large financial component made up of a value added statement and simplified financial statements. There is often a large non-financial component including a diagrammatic representation of the financial material (division of the value added as a pie-chart for example) and statistics about the organisation and work force. A quantity of

314. Chye, M.F.H., "Employee Reports: Another Channel of Communication", Occasional Paper No.42 (Faculty of Business, Massey University, 1982).

315. Smith, A. and Firth, M., "Employee Reporting in New Zealand - What Employees Think", Accountants Journal (November 1986) pp.24-26.

316. Purdy, D., "The Provision of Financial Information to Employees: A Study of the Reporting Practices of Some Large Public Companies in the United Kingdom", Accounting, Organisations and Society, Vol.6 No.4 (1981) pp.327-338.

317. Hussey, R., Who Reads Employee Reports? (Touche Roos, Oxford, 1979).

318. Jackson-Cox, J., Thirkell, J.E.M. and McQueeny, J., "The Disclosure of Company Information to Trade Unions: The Relevance of the ACAS Code of Practice on Disclosure", Accounting, Organizations and Society, Vol.9 No.3/4 (1984) pp.253-273.

qualitative material will often be present such as "a message from the Chairman...". There is some evidence that employees are more concerned about their own place of work than about the group of companies to which their own employing company belongs, whereas financial accounting reports are consolidated.

On balance, the author considers that most employee reports should be treated as potentially SRA disclosures. Employee reporting (or reporting to employees) is predominantly a Level I and II measurement exercise, excepting where financial data are reproduced from the regular annual accounts. The Level III measurements of employee activity have been separated off in the form of human resource accounting. This is discussed in section 7.70.

7.61 Accounting and Industrial Democracy

An extension of the employee reporting literature has been concerned with Industrial Democracy. This term is used to refer to the involvement of labour in decision making and may be formal as envisaged by the Bullock Report,³¹⁹ or less formal as in providing trade union negotiators with additional information for use in collective bargaining³²⁰ or negotiation over plant closures and redundancy.³²¹ Major contributions have been by critical theorists, concerned that trade union negotiators should be sufficiently well versed in financial matters that they can understand and critique the accounting data provided by management.^{322, 323} Radical researchers have also explored the logical extension of industrial

³¹⁹. Department of Trade, United Kingdom, Report of the Committee of Enquiry on Industrial Democracy (The Bullock Report) Cmd. 6706 (HMSO, London, 1977).

³²⁰. For example under the U.K. Employment Protection Act 1975.

³²¹. A very good coverage of the literature related to the provision of information to employee organisations for decision making purposes is provided by Gray, Owen and Maunders op.cit., Chapter 9.

³²². George, G.R., "Accounting Education Programs for Trade Unionists - A Radical Alternative to Worker Education," a paper presented to the Interdisciplinary Perspectives on Accounting Conference (Manchester, 1985).

³²³. Bougen, P.D. and Ogden, S.G., "Joint Consultation and the Disclosure of Information: An Historical Perspective", a paper presented to the Interdisciplinary Perspectives on Accounting Conference (Manchester, 1985).

democracy in the form of feasible socialism³²⁴ and worker co-operatives.³²⁵

Many of the models used in accounting and industrial democracy have been criticised for viewing the costs and benefits of alternative actions from a management perspective and not taking into account workers separate costs and benefits.³²⁶ An explanation for this phenomenon could be that employee representatives are concerned with mastering the financial accounting data and have not yet come to appreciate the resources available in the form of non-traditional accounting. Although individual firms are unlikely to be swayed by the costs of unemployment following a decision to close a plant government may be encouraged to intervene if presented with a statement of total costs and benefits to all parties.

The majority of Anglo-American SRA models do not deal with the topic of accounting and industrial democracy, although the provision of information to works councils and other employee groups is provided for in Continental Europe. There are historical and cultural reasons for these differences which are considered towards the end of chapter eight.

The current status of this sub-topic of employee reporting is that it is concerned with reporting financial and other information to trade union officials, as well as employees, and assisting them in understanding the information provided. The rationale for this work seems to be that until trade unionists and their representatives are more experienced in reading and understanding accounting reports, they will not be able to take part in any process of industrial democracy.

324. Tomlinson, J., "Accounting for Feasible Socialism: Accounting, Industrial Democracy and the Theory of the Firm," a paper presented to the Interdisciplinary Perspectives on Accounting Conference (Manchester, 1985).

325. Jefferis, K. and Thomas, A., "Measuring the Performance of Worker Co-operatives", a paper presented to the Interdisciplinary Perspectives on Accounting Conference (Manchester, 1985).

326. Ogden, S.G. and Bougen, P.D., "A Radical Perspective on Disclosure of Information to Trade Unions", Accounting, Organizations and Society, Vol.10 No.2 (1985) pp.211-224.

An interesting aspect of accounting and industrial democracy is provided by the results of a survey of accountant's attitudes by Jones and Blunt.³²⁷ They found that in South Australia, accountants supported the continuation of traditional managerial prerogatives to a large extent. Industrial democracy and the sharing of managerial decision-making authority was not thought desirable. The traditional approach of accountants towards the management role has been referred to previously in the section dealing with the radical perspective.

Clearly, whether this topic is regarded as belonging in whole or in part to the SRA report, it is an undeveloped activity outside of mainstream disclosure models and need not be considered in any greater depth within this framework at the present time.

7.70 Human Resource Accounting

Human resource accounting (HRA) was once an important area of theoretical discussion and may become topical again, although at the moment there is little being written in this area. HRA has not led to widespread modification of reporting practice and it is difficult to know exactly where HRA would fit into the framework of social accounting proposed herein. The valuation arrived at is a monetary amount, frequently derived from data which are not cost based. It must, therefore, be a Level III measurement (under the system proposed by the AAA) of the data which could be produced as a general SRA disclosure or as part of an employee report. The following examination proceeds on the basis that it is the logical framework of reporting socially useful information that we are describing, and not likely reporting practices in the near future.

The purpose of HRA is to place a value on the human capital employed by the firm in a similar manner to the valuation of other assets. A section of the literature favours putting these values on the balance sheet in a similar form to that of a capitalised lease. Other writers think that it would be sufficient for the capitalised figures to be included with other social responsibility disclosures. The valuation for HRA would be based on the number of each type of employee within the organisation. It would be expected that the average and total value of employees would alter in line

³²⁷. Jones, M., and Blunt, P., "Industrial Democracy and Accountants' Attitudes, The Chartered Accountant in Australia (June 1981) pp.42-46.

with changes in staffing, the amount of training undertaken and the improvement or decline of employee morale. The value of the human resource may be determined according to one or more of the following approaches. They are: conventional accounting; replacement cost; discounting of future salaries; and economic value.

The conventional accounting approach would be to capitalise expenditures related to recruiting, training and developing personnel. These amounts would then be amortised over the useful life of the asset. There are obvious difficulties in accumulating this data, and furthermore, what constitutes a useful life for an employee? Not only do employees retire or die they often move from position to position and employer to employer! Finally, how does an organisation value a new employee arriving with a variety of skills acquired elsewhere? A partial response may be found in the literature dealing with the accounting for pension schemes but this does not address the problem of the uncertainty of continued employment.

A replacement cost approach may be used in an attempt to value the human resources of an organisation. The replacement cost is a measure of the costs which would be incurred in replacing the existing personnel including recruiting, hiring, training and developing personnel to their existing levels of competence. Presumably, under this system of valuation, those employees thought incompetent would have a low, zero or even negative value since they could leave without replacement. The total value under this approach could be quite different from the accumulated cost approach. Both methods of valuation could be adjusted for price level changes.

A third approach would be to value employees at the capitalised value of their discounted future salaries for the expected period of employment. This method requires a number of estimates or assumptions in respect of the period of employment, the career path, the level of salary paid during the career path and last, but not least, a discount rate with which to obtain the present value.

The last approach to be included here is the measurement of human resources at their economic value. Flamholtz³²⁸ suggests developing an estimate of

³²⁸. Flamholtz, E.G., Human Resource Accounting (Dickenson, Belmont, California, 1974).

future services from each employee and discounting to get the economic value of that person. The total of individual economic values would be the value of the human resource to the organisation.

The difficulties attached to the last two approaches are immediately apparent. Accountants generally do not favour estimates being made of future costs and/or benefits associated with employees, and then discounting the value of these estimates with a rate which may be largely guesswork. The use of an historical cost or replacement cost approach might be acceptable to accountants, but would be rejected by other theorists. Early advocates of human resource accounting argued in favour of putting a value on the balance sheet along with other assets. There are alternative courses of action which could be taken, such as listing the value of employees as a part of the employment report, or in other social responsibility accounting disclosures.

There are a number of difficulties attached to the development of HRA. These may be categorised as behavioural, methodological, and theoretical. Behavioural problems arise when employees and others object to the valuing of human beings because the 'worth' of the individual is under examination. Whilst this may be acceptable to senior management, organised labour often has disagreements over historical relativities in pay scales, and the process of valuing individuals or groups is likely to cause further industrial difficulties including strikes.

The methodological problems are many, and centre about the usual difficulties of measuring inputs and outputs. These problems are compounded in some models by the use of present values of future events, necessitating the development of discount rates. The theoretical difficulties stem from the isolated nature of much of the HRA work. It is not grounded in the reality of other accounting developments. This criticism may also be levelled at later sections of this thesis, however, HRA purports to measure the value of employees as assets, but the vast majority of the literature is on a level which makes practical accomplishment most unlikely. This is analagous to the situation with plant, which is valued at cost and not the present value of the future cash flows which influenced the acquisition decision, despite many theoretical arguments in favour of the latter.

In a recent return to the HRA issue Flamholtz has developed a Stochastic Rewards Valuation Model (SRVM) for use in determining the "net present value of the average person at each job level"³²⁹ in conjunction with Touche Ross. Flamholtz provides a number of potential users of the system including personal advancement analysis within the firm and a number of uses on behalf of clients. The author summarises the work as follows:

"Although this system requires significant further refinement and research, this pilot study represents a potentially significant advance in the human resource accounting field. The study is also significant because there are, at present, relatively few examples of actual organisations which have developed human resource accounting systems."³³⁰

7.80 Value Added Statements

Value added statements have a place in the SRA literature, although composed of financial data which is derived, for the most part, from conventional financial accounts. Value added statements were advocated in the corporate report³³¹ and the U.K. Government Green Paper.³³² They have also been examined by commentators on behalf of the principal accounting bodies in the U.K.^{333, 334, 335} Consideration has been given to technical particulars such as whether value added should be calculated on a production or sales basis and shown as a gross or net figure before distribution.

Burchell, Clubb and Hopwood³³⁶ have charted the rise and fall of value added statements in the U.K. and associated their use with accounting in a

329. Flamholtz, E.G., Human Resource Accounting (Jossey-Bass, San Francisco, 1985) Chapter 7.

330. Flamholtz, E.G., "developing a Human Resource Accounting System", Working Paper (Center for Human Resource Management, UCLA, 1985).

331. op.cit., p.49.

332. op.cit., p.49.

333. Morley, M.F., The Value Added Statement (Gee and Co., London, 1978) for the Institute of Chartered Accountants of Scotland.

334. Renshall, M., Allan, R. and Nicholson, K., Added Value in External Financial Reporting (ICAEW, London, 1979).

335. Gray, S.J. and Maunders, K.T., Value Added Reporting: Uses and Measurement (Association of Certified Accountants, London, 1980).

336. Burchell, S., Clubb, C. and Hopwood, A.G., "Accounting in its Social Context: Towards a history of Value Added in the United Kingdom", Accounting, Organizations and Society Vol.10 No.4 (1985) pp.381-413.

social context in which the discipline responds (or is induced to respond) to particular social factors. Value added has been used in parts of Europe³³⁷ but value added statements are reported to be almost non-existent in the U.S.³³⁸ The important factor at work appears to be the use to which the information is to be put, rather than the types of information. Value added statements, which reflect the production and distribution of value added, are perceived by many to demonstrate the team approach to generating value added. They are therefore part of social responsibility accounting.

7.90 Chapter Summary

This chapter has considered a number of conceptual and operational models for SRA, the involvement of management accountants in developing both internal and external disclosures, employee reports and accounting for industrial democracy, human resource accounting and value added statements. A number of conceptual models were examined and found to range from philosophical positions and definitional statements to historically generated categories of response by accountants and managers to given changes in the social and legislative environment. Several models emphasised the interrelationship of the entity and the surrounding environment, whilst others were more concerned with the development of a further (social) dimension as an aid to decision making, which was also sensitive to the needs of outside parties.

Several operational models were considered (the difference between conceptual and operational being defined in terms of details of what should be disclosed) and found to be couched in terms of employee reports, product information, energy reports, community involvement, and environmental impact. A number of specialised areas were also included such as SRA and management accounting, accounting and industrial democracy, human resource accounting, and value added statements.

³³⁷. Dierkes, M., "Corporate Social Reporting in Germany: Conceptual Developments and Practical Experience", Accounting, Organizations and Society (1979) pp.87-100.

³³⁸. Choi, F.D.S. and Mueller, G.G., International Accounting (Prentice Hall, New Jersey, 1984) p.276.

It was noted that Continental European models were devoted almost exclusively to employee matters and ignored many environmentally related areas. This difference is examined in greater detail in the part of chapter eight dealing with cultural influences on the use of SRA.

The subject of chapter eight is the literature which details SRA in practice.

CHAPTER EIGHT

8.00 Social Responsibility Accounting in Practice

8.10 Introduction

Social responsibility accounting captures a variety of information the organisation wants to disclose, and (hopefully), the readers wish to know. A number of recent studies, designed to find out what is disclosed, are reviewed below. They are followed by a brief examination of some of the problems inherent in this type of study. The studies are grouped according to the country of origin and are intended to be illustrative of the disclosures in each. The chapter concludes with a partial explanation of differences by reference to studies on culture and accounting.

8.20 Australian Studies

Studies carried out in Australia between 1979 and 1984 included Trotman (1979), Kelly (1979), Trotman and Bradley (1981), Pang (1982) and Guthrie (1982, 1984).

8.21 Trotman

Trotman³³⁹ used a sample consisting of the accounts of the largest 100 companies listed on the Sydney Stock Exchange. This sample included 90% of the total value of listed companies for each of the years 1967, 1972, and 1977. The disclosures were analysed under the headings of environment, energy, human resources, products, community involvement and 'other'. Trotman found an increased incidence of disclosure from 26 companies in 1967 to 48 in 1972 and 69 in 1977, with 'the environment' and 'human resources' as the most frequently included categories in 1977. Disclosures were categorised into monetary quantification, non-monetary quantification, and qualitative disclosures. About half of all disclosures were found to be qualitative. The proportion of social accounting material in the annual reports was measured in terms of 'average pages per company report'; 0.08 in 1967, 0.30 in 1972 and 0.57 in 1977. It is the quantification of disclosures which makes this study particularly important in the Australian

³³⁹. Trotman, K.T., "Social Responsibility Disclosures by Australian Companies", The Chartered Accountant in Australia (March 1979) pp.24-28.

context. Unfortunately Trotman did not reveal the decision mechanism by which particular disclosures were judged to be eligible for inclusion as examples of SRA and others were excluded from consideration.

8.22 Kelly

Kelly³⁴⁰ used selected social responsibility disclosures from the annual reports of 50 selected Australian corporations over the period 1969-1978. The results confirmed Trotman's findings of increased disclosure over that time period and drew attention to differential aspects of reporting. Kelly found that large corporations tended to disclose more environmental and product information than did smaller organisations, whilst companies in the primary and secondary sectors of the economy tended to disclose more environmental and energy information than corporations engaged in tertiary activities. The opposite was true in the case of information about the interaction of the firm and its local community.

This study was important in the context of Australian social responsibility accounting research, because it established statistically significant relationships between types and sizes of industries and various social responsibility disclosures. However, the sample size was quite small (50 companies) and this factor limits the generalisability of the results.

8.23 Trotman and Bradley

The study by Trotman and Bradley³⁴¹ was designed to test a number of specific hypotheses concerned with volumes of disclosures and (1) the size of companies; (2) their systematic risk; (3) social constraints as perceived by management and (4) the long-term effects of decisions. The sample comprised 207 companies listed on the Australian Associated Stock Exchange. The annual reports of the companies selected (all volunteers arrived at by a process of elimination) were examined for social responsibility disclosures in the area of environment, energy, human resources, products, community involvement and 'other'. The number of companies producing suitable disclosures was 40% of the sample selected (83

³⁴⁰. Kelly, G.J., "Measurement of Selected Social Responsibility Disclosure Items in Australian Annual Reports and their relations to Temporal Changes, Corporate Size and Industry". Dissertation (University of New England, 1979).

³⁴¹. Trotman, K.T. and Bradley, G.W., "Associations between Social Responsibility Disclosures and Characteristics of Companies", Accounting, Organizations and Society, Vol.6 No.4 (1981) pp.355-362.

reports). The extent of social responsibility disclosures was measured through a line-by-line examination, giving a proportion of the total discussion of all issues.

The size of companies was measured in terms of both total assets and total sales at the 1978 balance sheet date. Systematic risk was defined as the contribution of the individual security to portfolio risks, using beta measurements supplied by the Australian Graduate School of Management. Measurement of the social pressures perceived by companies and management's decision horizon were taken from a previous survey by Bradley. Statistically significant relationships were found in the following areas:

- (1) Company size (total assets and total sales) was associated with social responsibility. Larger organisations tended to provide more disclosures.
- (2) A positive correlation was found between the volume of social responsibility data disclosed and the extent of the social constraints faced by companies.

Positive relationships of lesser significance were found between systematic risk (beta) and the volume of social responsibility data provided, and the disclosures and emphasis on long-term developments within the organisation. The Trotman and Bradley study was important because of the direction it takes social responsibility disclosure research in Australia and the increased sophistication of its analysis.

8.24 Pang

Pang³⁴² modelled her study on that of Trotman and examined the social responsibility disclosures of a sample of 100 companies listed on the Sydney Stock Exchange in 1980. The 100 companies included the 70 largest companies (based on market capitalisation) and 30 companies selected at random. The reports were analysed in terms of community involvement, environment, energy, human resources and products and consumer issues. The results showed that in 1980, 79 companies made some form of social responsibility disclosure, with larger companies disclosing socially

³⁴². Pang, Y.H., "Disclosures of Corporate Social Responsibility", The Chartered Accountant in Australia (July 1982) pp.32-34.

related material more frequently than smaller companies. Disclosure rates ranged from 92% for those with a market capitalisation above \$A500m to 73% for those less than \$A100m.

The location of the social responsibility information was also considered. Alternative formats included a separate report (4), a separate section of the annual report (25), separate headings in various reports (18), and coverage as part of other major topics in the annual report (32). Larger companies tended to provide separate disclosure of social activities, whereas smaller companies tended to disclose these activities in conjunction with other matters in the annual report.

8.25 Guthrie

Guthrie³⁴³ examined the annual reports of the top 150 listed Australian companies for 1980. The study was aimed at exposing trends in SRA disclosures and analysing the extent and type of disclosure activity. Content analysis was used to place information within four dimensions; theme, evidence, amount and location. 'Theme' was based on categories such as environment, energy, human resources, products, community involvement and others. 'Evidence' described the form of disclosure; monetary, non-monetary, declarative (qualitative) and none. 'Amount' was the familiar measure by the proportion of pages devoted to social responsibility matters and 'location' referred to a choice between chairmans' reviews, a separate social disclosures section, parts of other sections of the annual report and a separate booklet on social responsibility.

The results showed that 42% of the companies surveyed included some form of social responsibility disclosure, with the different themes having the following relative importance: Human resources (43%), environment (21%), community involvement (14%), energy (9%), products (5%) and 'others' (8%). The 'evidence' section showed that 60% of all disclosures were declarative (i.e. non-quantitative, qualitative) whilst 24% gave some non-monetary quantification. The reports giving both monetary and non-monetary quantification were limited to 12% of those making some disclosure and only 4% gave monetary disclosures alone.

³⁴³. Guthrie, J.E., "Social Accounting in Australia - Social Responsibility Disclosure in the Top 150 listed Australian Companies, 1980 Annual Reports", Unpublished Masters Dissertation (WAIT, Perth, 1982).

The most popular places for locating social responsibility disclosures were the director's report (50%), or a non-specific section of the annual report (40%), and only 10% used a specific section of the annual report devoted to social responsibility disclosures. No company issued a separate booklet. The amount of disclosure was a mean of 0.68 pages, however, 11% disclosed more than one page whilst 40% reported less than 0.25 pages. The overall results tended to confirm previous studies. The important dimensions added by Guthrie are content analysis, which incorporated checks on validity and reliability, and the addition of variability to the average figure for disclosure.

Guthrie ^{344, 345} continued this analysis with a further study in 1984 using 1983 Annual Reports. Because the same analyst conducted both studies using the same instrument for measurement, it was possible to tabulate comparative data for certain features for 1980 and 1983. These comparisons related to the top 50 companies on the Sydney Stock Exchange, measured by market capitalisation.

The results of the research reported in Exhibit 29 shows that 28 companies (56%) made some form of social responsibility accounting disclosure in the 1980 annual financial reports, this was also the position in 1983.

EXHIBIT 29
Incidence of social responsibility accounting disclosures

	1980		1983	
	No	%	No	%
Companies making SRA Disclosures in annual reports	28	56	28	56
Companies making no SRA Disclosures in annual reports	20	40	22	44
Reports not available	2	4	0	0
	<u>50</u>	<u>100</u>	<u>50</u>	<u>100</u>
	--	---	--	---

344. Guthrie, J.E. and Mathews, M.R., "Current State of Social Accounting in Australasia", Working Paper No.9 (Public Interest Section, American Accounting Association, Summer 1984).

345. Guthrie, J.E. and Mathews, M.R. "Recent Developments in Social Reporting in Australasia", in Preston, L.E. (Ed) Research in Corporate Social performance and Policy (JAI Press, New York, 1985).

Of the various possible themes of SRA in 1980, it was found that human resources accounted for 22 disclosures, the next highest number was environment (15) and community involvement, eight. Of lesser importance was energy with four disclosures, 'others' four and products had only one disclosure, from a total of 54 reporting companies. In 1983 there were considerably fewer disclosures for environment (six) and only one related to energy. These results are reported in Exhibit 30. Note that some organisations reported more than one theme.

EXHIBIT 30
Types of social responsibility accounting disclosure

	1980		1983	
	Companies Reporting	% of Total	Companies Reporting	% of Total
Environment	15	30	6	12
Energy	4	8	1	2
Human Resources	22	44	26	52
Products	1	2	0	0
Community Involvement	8	16	8	16
Others	4	8	5	10
	---	---	---	---
	54	100	46	100
	---	---	---	---

Of the 54 disclosures identified it was found that only 21 were expressed in quantified terms, either monetary or non-monetary. This represents approximately 44 per cent of the total disclosures. The results shown in Exhibit 31 indicate that human resources had the highest incidence of quantified disclosure with 13 disclosures, followed by energy, community involvement and environment. There were no entries for community involvement and products. In 1983 the only significant change was the increase in quantification of disclosures related to human resources. The comparative performance is given below.

EXHIBIT 31
Type and quantification of social responsibility
accounting disclosures

	QUANTITATIVE Monetary 1980		DISCLOSURE Non-monetary 1980		QUANTITATIVE Monetary 1983		DISCLOSURE Non-Monetary 1983	
	No	%	No	%	No	%	No	%
Environment	1	2	1	2	2	4	1	2
Energy	2	4	3	6	0	0	0	0
Human								
Resources	1	2	12	24	3	6	19	38
Products	0	0	0	0	1	2	0	0
Community								
Involvement	1	2	0	0	1	2	1	2
Others	0	0	0	0	1	2	0	0
Totals	5	10	16	32	8	16	21	42

It should be noted that many corporations made more than one disclosure.

Exhibit 32 outlines the results for the degree of quantification. In 1980 sixteen of the twenty-eight companies quantified their disclosures, but only five companies (16%) had some form of monetary quantification and 12 companies (40%) had no quantification whatever in the identified SRA disclosures. In 1983 there appeared to be an increase in the number of disclosing companies which were willing to quantify disclosures, from 56% in 1980 to 82% in 1983.

EXHIBIT 32
Quantification of social responsibility accounting
disclosures

	1980		1983	
	No	%	No	%
Both Monetary and Non-Monetary				
Quantification	3	10	8	30
Monetary Quantification	2	6	1	3
Non-Monetary Quantification	11	40	13	49
Declarative	12	44	5	18
	---	---	---	---
Total	28	100	28	100
	---	---	---	---

Exhibit 33 indicates that SRA disclosures are located throughout the annual reports with (twelve) appearing in the Chairman's report (45% of disclosing companies). However, the majority of companies disclosed this information

in the general body of the report, and no company provided a separate SRA booklet. In 1983 there was little change in these disclosure patterns.

EXHIBIT 33
Location of social responsibility accounting disclosures

	1980 No	1983 No
Director's Report	12	9
Separate Section of Annual Report devoted to SRA	0	1
Other Section	16	18
Separate Booklet	0	0

Exhibit 34 indicates that in 1980 there were approximately 42.25 pages of social responsibility accounting disclosure identified. The average number of pages devoted to SRA information, per disclosing company, was 0.68 of a page. There were only seven (11%) of the companies with greater than one page of the annual report devoted to SRA whilst 25 companies (40% of disclosing companies) devoted less than 0.25 of a page to disclosure. Similar results were obtained for 1983 with the average being 0.70 of a page.

EXHIBIT 34
**Number of pages devoted to social responsibility
accounting disclosures**

Pages devoted	1980 No	1983 No
0.01 - 0.25	11	6
0.26 - 0.50	8	10
0.51 - 0.75	2	6
0.76 - 1.00	3	1
1.01 - and more	4	3

In the 1983 annual report review, a new category was introduced into the recording instrument, that of the issuing of bad or negative news about any one of the themes. Exhibit 35 indicates these results. The main reason for the 11 disclosures on human resources was the reduction of staff employed because of retrenchments and re-organisation of the corporation.

EXHIBIT 35
Issuing of bad news

1983

Environment	0
Energy	0
Human Resources	11
Products	0
Community Development	0
Others	0

There are obvious advantages in having the same analyst examine the annual reports using a 'proven' instrument. A greater degree of comparability should result. It can be seen that on the whole there were few changes in SRA in Australia between 1980 and 1983 as evidenced by the annual reports of the top 50 companies on the Sydney Stock Exchange.

8.26 Gul, Andrew and Teoh

Gul, Andrew and Teoh³⁴⁶ used the instrument developed by Guthrie on a random sample of 136 annual reports of Australian companies. The results they obtained differed to some extent from those reported in the previous section, probably as a result of the random sample used in place of the sample of larger companies adopted by Guthrie. Results showed that 30 percent of the companies sampled made SRA disclosures. These included 42 percent of the companies in the construction industry and 32 percent of the companies in manufacturing industry. The information disclosed consisted of 36 percent relating to the human resource, 32 percent relating to community involvement and 10 percent relative to the environment. It was found that large companies made more disclosures about employees but disclosures about community involvement was spread across firms of all sizes. The largest proportion of monetary quantification was concerned with community involvement and the majority of disclosures were in the directors report.

The authors concluded that a reasonable proportion (30%) of companies surveyed included SRA disclosures and for foreign owned companies the

³⁴⁶. Gul, F.A., Andrew, B.H. and Teoh, H.Y., "A Content Analytical Study of Corporate Social Responsibility Accounting Disclosures in a Sample of Australian Companies (1983)", Working Paper (University of Wollongong, 1984).

proportion was 50%. There are limitations associated with the study in terms of the use of a relatively small sample and only one years' reports.

8.30 NEW ZEALAND STUDIES

8.31 Robertson

In a 1977 New Zealand study, Robertson³⁴⁷ reported on a survey undertaken to assess the extent and kind of corporate social reporting in published annual reports. This was achieved by using the annual reports of the largest 100 companies, (based on paid-up capital) as at September 1975. The analysis found that for 54 companies there were 79 qualitative, 17 quantitative and 34 monetary disclosures. However, any reference to 'social' matters were included, no matter how trivial, and 24 of the monetary disclosures referred to housing assistance for personnel. Although a useful beginning, the study lacks quantification. For example, the extent of disclosure is not quantified in contrast to the work of Trotman and the other studies discussed previously.

8.32 Davey

Two recent New Zealand studies provide an insight into the problems associated with this type of research. Davey³⁴⁸ examined the annual accounts of a 15% random sample of firms listed on the New Zealand Stock Exchange at 31 March 1982. This gave a sample of 32 firms which were classified as primary, heavy industrial, manufacturing or service industries. The accounts were examined and analysed for the type of disclosure taxonomy used (all were found to use an inventory approach), differing measurement levels, any form of attest relationship, and the volume of each type of disclosure as measured by six-character 'words'.

It was found that social responsibility disclosures had increased considerably since Robertson's 1977 study, but that most were generalised qualitative statements without any attempt at attestation, giving a low score on the scale of quality used. Approximately 60% of the sample made disclosures exceeding 100 'words' in length. There was no confirmation of the relationship between size of organisation (as measured by total assets)

³⁴⁷. Robertson, J., "Corporate Social Reporting by New Zealand Companies", Occasional Paper No.17 (Faculty of Business, Massey University, 1977).

³⁴⁸. Davey, H.B., "Corporate Social Responsibility Disclosure in New Zealand An Empirical Investigation", Occasional Paper No.52 (Faculty of Business, Massey University, 1985).

and the volume of social responsibility disclosures, or the type of industry group and the disclosures. This is contrary to the Australian studies of Trotman, Trotman and Bradley and Kelly, and may have been the result of the small sample size.

Davey constructed a "Corporate Social Responsibility Worksheet" which allowed for disclosures under the heading of employment, corporate objectives, product, philanthropy, environment, energy and 'other'. Guidelines were provided for the calculation of 'words', the determination of the type of disclosure (inventory approach, cost approach, programme management approach, benefit/cost approach), the quality of disclosure (on a seven-point scale) and any evidence of independent audit or attestation. An example of the worksheet is given as Exhibit 36.

EXHIBIT 36

Corporate social responsibility worksheet

Company	1981					Balance Date					1983				
	W	%	T	Q	A	W	%	T	Q	A	W	%	T	Q	A
1) Employment															
- minority															
- safety															
- training															
- assistance/benefits															
- remuneration															
- profiles															
- share purchase scheme															
- morale															
- industrial relations															
- other															
2) Corporate Objectives/ Policies															
3) Product															
- development															
- safety															
- quality															
4) Community Support/ Philanthropy															
5) Environment															
- Pollution															
- Aesthetics															
- Other															
6) Energy															
7) Other															

W = Words of social disclosure;

% = Percentage of words of social disclosure;

T = Type of social disclosure;

Q = Quality of disclosure;

A = Whether the disclosures have been audited.

It is evident that much of the analysis is likely to have been subjective. However, the total of 'words' and the percentage of total wordage attributed to a particular form of disclosure (for example product) could be expected to remain reasonably constant between observers.

8.33 Ng

This hypothesis was tested by Ng³⁴⁹ who used the same test instrument with the same sample of companies but for three years (1981, 1982 and 1983) instead of just 1982. She found that even a careful attempt to replicate the word-count did not yield the same results, because of the impossibility of different observers reacting in the same way to some of the statements. The extent of the differences are detailed below.

In Exhibit 37 a comparison of the percentage of the sample reporting SRA shows a consistent upward bias by Ng compared with Davey. That is, Ng discarded fewer disclosures as unworthy of inclusion because they were of a self-serving or public relations nature. The only category where Davey recorded a higher number of words was 'other' because Ng seems to have gone to greater lengths to categorise some of the difficult entries which Davey had assigned to this category. A forced-nature choice may have been employed to avoid the 'other' category, and may reflect the individual characteristics of the researcher.

EXHIBIT 37

Percentage of sample corporations reporting SRA

	Davey	Ng
Percentage of total companies reporting disclosures	84%	100%
Percentage of companies reporting:		
Employment	66	88
Corporate Objectives	38	41
Product	3	28
Community Support/Philanthropy	16	19
Environment	6	13
Energy	0	3
Other	13	3

³⁴⁹. Ng, L.W., "Social Responsibility Disclosures of Selected New Zealand Companies of 1981, 1982 and 1983", Occasional Paper No.54 (Faculty of Business, Massey University, 1985).

Exhibit 38 provides comparative data on each category of disclosure. The results presented in this table indicate the subjective effect of using different observers. Ng had a different reaction to marginally subjective statements than Davey and this had an aggregate effect of increasing her word count by 32%.

EXHIBIT 38
Comparative data on each category of social disclosure

Category of Disclosure	DAVEY			NG		
	Words	%	Rank	Words	%	Rank
Employment	4449	57.6	1	6155	60.3	1
Corporate Objectives	2497	32.3	2	1536	15.0	2
Community Support/Philanthropy	297	3.8	3	593	5.8	4
Environment	177	2.3	5	364	3.6	5
Product	28	0.4	6	1313	12.9	3
Energy	0	-	7	212	2.1	6
Other	281	3.6	4	33	0.3	7
	7729	100.0		10206	100.0	

Like Davey, Ng did not find the association between the level of disclosure of SRA and industry size or characteristics, that the Australian studies have reported. This was the case for both individual years and average results over the three years.

8.40 UNITED STATES STUDIES

8.41 Buzby

Buzby³⁵⁰ examined thirty-eight items of information, both financial and non-financial, to determine the extent to which they were included in annual reports. These items were ranked using a panel of financial analysts. The analysts ranking, plus a literature search, was used to construct a set of weighted criteria for each item which was then applied to a sample of 88 company reports of small and medium sized organisations. The measures were intended to determine the extent of disclosure, the relationship between importance and disclosure, and the average extent of the overall disclosures. Listed items of a non-financial nature were number of employees, plant and warehouse sizes locations and ages, and indications of employee morale. Buzby concluded that many items were

³⁵⁰. Buzby, S.L., "Selected Items of Information and their Disclosure in Annual Reports", The Accounting Review (July 1974) pp.423-435.

inadequately disclosed in the sample, and that correlations between the relative importance of items and the extent of their disclosure were low.

8.42 Ingram

In a study of the information content of firms' voluntary social responsibility disclosures, Ingram³⁵¹ found that information content depended to a large extent on the market segment. This study was referred to in greater detail in chapter two.

8.43 Stevens

Stevens investigated the reaction of the stock market to corporate environmental performance. His study was particularly interesting in that the corporate performance data used were not supplied voluntarily by corporations, but determined by an outside body, the Council on Economic Practices (CEP). The results of the study;

"... lend support to the conclusion that environmental performance data have information content for investors. The most obvious conclusion one can draw from the descriptive results of our sample is that the difference in returns among the sample and control portfolio are in the direction hypothesised".³⁵²

Thus, Stevens found some indication that investors;

"... react to the release of data bearing on corporate social performance in making investment decisions".³⁵³

8.44 Ernst and Ernst

Probably the most well known studies in this area were those carried out by Ernst and Ernst (now Ernst and Whinney) between 1972 and 1978.³⁵⁴ The 1978 report was very comprehensive and, like all the studies in the series, it was based upon the annual reports of the Fortune 500 companies. The survey

³⁵¹. Ingram, R.W., "an Investigation of the Information Content of (Certain) Social Responsibility Disclosures", Journal of Accounting Research (1978) pp.270-285.

³⁵². Stevens, op.cit., p.23.

³⁵³. ibid., p.2.

³⁵⁴. Ernst and Ernst., "Social Responsibility Disclosure Surveys of Fortune 500 Annual Reports" (Ernst and Ernst, Cleveland, 1972-1978). Produced annually during this period.

showed a small decline in the number of companies which made social responsibility disclosures (from 91.2% to 89.2%) the first reduction recorded in the series. The average number of pages devoted to social responsibility disclosures was 0.56 an increase from 0.43 in the previous year. There was a small decrease in the number of companies quantifying their disclosures (from 60% to 59%). One notable feature of the 1978 Ernst and Ernst study and report was the considerable attention given to examples of disclosures and to the method employed in the survey. The authors were aware of the subjective nature of these studies:

"The identification and categorization of SR information is a subjective task because there is no widely accepted definition of "social responsibility", or agreement as to what constitutes a corporate socially responsible activity".³⁵⁵

The authors attempted to reduce the degree of subjectivity and stated:

"If anything, the amount of disclosure reported in the survey is understated because of the selective approach employed in identifying and categorizing disclosures and the possibility of human error".³⁵⁶

The incidence and types of SRA disclosures found in the 1977 Fortune 500 annual reports are shown in Exhibit 39.

³⁵⁵. *ibid.*, p.30.

³⁵⁶. *ibid.*, p.31.

EXHIBIT 39

CSR information	Number of companies disclosing
A Environment	
1. Pollution control	222
2. Prevention or repair of environmental damage	25
3. Conservation of natural resources	65
4. Other environmental disclosures	76
B Energy	
5. Conservation	210
6. Energy efficiency of products	75
7. Other energy related disclosures	48
C Fair business practices	
8. Employment of minorities	87
9. Advancement of minorities	78
10. Employment of women	81
11. Advancement of women	237
12. Employment of other special interest groups	30
13. Support for minority businesses	30
14. Socially responsible practices abroad	71
15. Other statements on fair business practices	173
D Human resources	
16. Employee health & safety	115
17. Employee training	133
18. Other human resource disclosures	54
E Community involvement	
19. community activities	93
20. Health related activities	59
21. Education and the arts	116
22. Other community activity disclosures	93
F Products	
23. Safety	70
24. Reducing pollution from product use	37
25. Other product related disclosures	77
G Other social responsibility disclosures	
26. Other disclosures	94
27. Additional information	26

Source: Ernst & Ernst, 1978.

8.50 Canadian Studies

8.51 Burke

In a study published in 1980 Burke³⁵⁷ compared the SRA disclosures (called social measurement disclosures (SMD) and material social measurement disclosures (MSMD)) for U.S. and Canadian company reports. The results of the study are revealing in that the difference between the two categories of disclosure was designed to overcome the problems which have been apparent in other studies. The definitions used were;

SMD

"... any disclosure about an area of social concern not traditionally reported upon ..."

MSMD

"... a SMD that provided a reasonably comprehensive profile of a company's activities in such an area. Apart from breadth of coverage, meeting the MSMD test required specific data in quantitative form."³⁵⁸

The differences were reported in a series of tables detailing the number of companies in each country that reported disclosures at both levels for a range of categories. The relationship of size of corporation to extent of disclosure was explored and it was found that larger companies were more likely to provide meaningful social measurement disclosures. Exhibit 40 reproduces the most comprehensive table showing the relative emphasis given by U.S. and Canadian firms to each major social measurement category as measured by SMD's and MSMD's. It is clear from this exhibit that there were important differences between Canadian and U.S. companies at that time.

³⁵⁷. Burke, R.C., "The Disclosure of Social Accounting Information", Cost and Management (May/June 1980) pp.21-24.

³⁵⁸. ibid., p.21.

EXHIBIT 40**Relative emphasis given by U.S. and Canadian firms to each major social measurement category as measured by SMDS and MSMDs**

Social Measurement Categories	Number (Percent) of Annual Reports Providing					
	U.S. (N=445)	MSMD	CANADA (n=38)	MSMD	TOTAL (N=483)	MSMD
Environmental Controls						
(1) Equipment to abate pollution and related operating costs	68(15.3%)	53(11.9%)	11(28.9%)	9(23.7%)	79(16.4%)	62(12.8%)
(2) Improvement of products to reduce their pollutive effects	2(0.4%)	0	0	0	2(0.4%)	0
(3) Recycling of waste material	8(1.8%)	4(0.9%)	0	0	8(1.7%)	4(0.8%)
(4) Other (repair of environment, etc.)	24(5.4%)	3(0.7%)	2(5.3%)	1(2.6%)	26(5.4%)	4(0.8%)
Minority Employment						
(5) Hard-core minorities employment	55(12.4%)	41(9.2%)	0	0	55(11.4%)	41(8.5%)
(6) Minority purchasing programs including bank deposits	20(4.5%)	12(2.7%)	0	0	20(4.1%)	12(2.5%)
(7) Advancement of racial minorities or women	29(6.5%)	20(4.5%)	0	0	29(6.0%)	20(4.1%)
(8) Unskilled and disadvantaged groups hired	14(3.1%)	3(0.6%)	0	0	14(2.9%)	3(0.6%)
(9) Equal employment opportunities	44(9.9%)	3(0.7%)	0	0	44(9.1%)	3(0.6%)
Responsibility to Personnel						
(10) Personnel counselling (alcoholism, etc.)	6(1.3%)	3(0.7%)	0	0	6(1.2%)	3(0.6%)
(11) Assist displaced employees in locating new employment	2(0.4%)	1(0.2%)	0	0	2(0.4%)	1(0.2%)
(12) Employee training	41(9.2%)	15(3.4%)	3(7.9%)	1(2.6%)	44(9.1%)	16(3.3%)
(13) Work environment, safety	51(11.5%)	26(5.8%)	8(21.1%)	5(13.2%)	59(12.2%)	31(6.4%)
(14) Educational assistance, reaction, social activities	22(4.9%)	8(1.8%)	3(7.9%)	1(2.6%)	25(5.2%)	9(1.9%)
Community Activities						
(15) Donation of cash or employee services to community welfare organizations	38(8.5%)	25(5.6%)	3(7.9%)	1(2.6%)	41(8.5%)	26(5.4%)
(16) Health projects, medical research	22(4.9%)	10(2.2%)	1(2.6%)	1(2.6%)	23(4.8%)	11(2.3%)
(17) Aid to education, schools and the arts	49(11.0%)	24(5.4%)	3(7.9%)	1(2.6%)	52(10.8%)	25(5.2%)
(18) Community development	11(2.5%)	7(1.6%)	1(2.6%)	0	12(2.5%)	7(1.4%)
(19) French language development (Canada)	0	0	1(2.6%)	0	1(0.2%)	0
(20) Other (T.V. advertising, development of committees to help communities, etc.)	36(8.1%)	16(3.5%)	1(2.6%)	0	37(7.7%)	16(3.3%)
Product Improvement						
(21) Safety	12(2.7%)	5(1.1%)	0	0	12(2.5%)	5(1.0%)
(22) Quality (nutritional value, etc.)	19(4.3%)	2(0.4%)	1(2.6%)	0	20(4.1%)	2(0.4%)
(23) Other (energy reduction, etc.)	10(2.2%)	2(0.4%)	1(2.6%)	0	11(2.3%)	2(0.4%)
Energy Conservation						
(24) Conservation and search for new supplies	70(15.7%)	43(9.7%)	6(15.8%)	4(10.5%)	76(15.7%)	47(9.77%)

Source: Burke, op.cit., p.23.

5.52 Demers and Wayland

Demers and Wayland examined the annual reports of major Canadian companies which have taken the initiative in the SRA field. The information gleaned from the reports was reported in narrative form and may be summarised as follows:

General Foods - 1977 report - annual seminar on nutrition; sponsorship of awards to journalists; employment of blind tasters in quality control area; the programmes continued in 1978; a five year energy conservation plan was launched in 1978.

Canadian Industries Limited - 1978 report - installed new system for evaluating occupational accidents including comparisons between company's record and the rest of the chemical industry. Figures given for rate of accidents for company employees for both 1977 and 1978. Company-owned collection of contemporary Canadian art touring the country.

Imperial Oil - 1977 - devoted four pages of the annual report to community relations. SRA items included; formation of teams to deal with oil spills; petroleum industry participation in environmental protection groups; existence of 86 employee - management consultative groups; a survey of employees on their expectations and attitudes towards the company; employee health programmes; job safety programmes which have produced a dramatic reduction in the number of hours lost due to accidents; continued support for higher education; reduction in energy costs.

Fina (Petro Canada) - 1976 - concentrates social actions in area of environmental protection; detailed involvement including donating time of employees; improvement in quality of refinery waste water; donations to 215 agencies in the field of industrial relations; enlarged company newspapers; 25 university scholarships for the children of company employees.

John Labatt Ltd - 1979 - indicated a substantial increase in contributions to social programmes (\$648,000 to \$778,000) for use mainly in local communities; also summer jobs for students in community programmes; social responsibility committee within the board of directors; and an exchange programme for children of Labatt employees in different parts of Canada.

Imasco - 1977 - sponsorship of sporting events; scholarships to assist performing artists; contributed \$840,000 to non-profit agencies.

Gaz Metropolitan - 1978 - opened a training centre to instruct firefighters in the control of natural gas leaks; free medical examination for employees; retirement preparation courses.

Bombardier - 1978-79 - social involvement through foundation; installation of park; construction of a cultural centre; donations to Canadian Universities; donations to charities both local and international.

8.53 Brooks

In a very comprehensive examination of corporate social performance in Canada, Brooks analysed the SRA component of company annual reports for twenty-two matched pairs for the years 1974 and 1980. He was particularly interested in changes to reports over this period and concluded that:

"Table 4.7 shows that ... there has been relatively little change in the percentage of space allocated to social responsibility disclosures between 1974 and 1980 ... according to the nonparametric sign test for matched pairs ... the only changes in disclosure which are significant ... are those for Human Resources - Pictures."³⁵⁹

³⁵⁹ Brooks, op.cit., p.73.

The content analysis of the twenty-two matched pairs of 1974 and 1980 annual reports is shown in Exhibit 41. It is noteworthy that Brooks recognised the need to separate pictures and script in his analysis, this is a problem with SRA disclosures and few analysts appear to state their approach with this clarity.

EXHIBIT 41
Content analysis of twenty-two matched
pairs of 1974 and 1980 annual reports

CORPORATE SOCIAL RESPONSIBILITY CONTENT ANALYSIS OF TWENTY-TWO MATCHED PAIRS OF 1974 AND 1980 ANNUAL REPORTS														9/3/84	
NUMBER OF PAGES IN 1980 ANNUAL REPORTS															
COMPANY	HUMAN PICTURES	RESOURCES SCRIPT	COMMUN. PIC	INVOLVE SCRIPT	ENVIRONMENT PIC	PRODUCT SCRIPT	RELATED PIC	GENERAL SCRIPT	SUM ALL PICTURES	SUM ALL SCRIPT	SUM ALL PIC & SCT	REPORT PAGES			
52	1.14	1.14	0	0	0	.42	0	.11	0	.08	1.14	1.95	3.11	32	
7	1.24	.25	2.38	.18	.13	.47	0	.05	0	1.28	3.77	2.23	4	56	
21	.13	.15	.25	.28	1	.72	3.13	.11	0	.22	4.51	1.48	5.99	37	
4	0	.41	0	.04	0	.15	.41	.1	0	.29	.41	1.01	1.42	42	
43	.25	.44	0	0	0	.02	.5	.39	0	.05	.75	.92	1.67	18	
45	0	.31	0	0	1.33	2.02	0	0	0	.04	1.33	2.39	3.72	22	
9	1	.48	0	0	.16	.38	2.11	.21	0	0	3.27	1.07	4.34	50	
40	0	.43	0	.07	0	0	0	.12	0	.08	0	.7	.7	36	
27	0	.32	0	.11	0	.08	0	.09	0	.14	0	.74	.74	33	
14	0	.18	0	.1	0	.05	0	.24	0	0	0	.57	.57	24	
41	0	.52	0	.07	0	.5	.84	0	0	.06	.5	2.47	2.97	34	
40	2	.71	0	.34	0	.24	.84	.17	0	.18	2.86	1.64	4.5	33	
13	0	.37	0	.62	0	0	6.61	.16	0	.05	6.61	1.2	7.81	54	
49b	0	.34	0	0	.44	.44	.83	.15	0	0	1.49	1.15	2.64	34	
1	0	.14	0	.23	.33	.05	1	.21	0	.31	1.33	.94	2.29	30	
47	1.19	.25	.04	.05	0	0	1.74	.11	0	0	3	.41	3.41	22	
31	.4	4.7	0	.75	0	.35	0	.34	1	2.48	1.4	6.62	10.02	57	
43	1	.34	1.78	.03	0	0	2	.07	0	0	4.78	.44	5.22	45	
50	.47	1.4	.11	.09	.11	.23	.22	.09	.11	.08	1.02	2.09	3.11	41	
22	0	.19	0	.46	0	0	1	.03	0	0	1	.88	1.88	28	
73	.5	.62	.33	.13	0	0	2.44	.26	1	.19	4.49	1.2	5.69	73	
11	.64	.34	0	.23	1.33	1.15	0	.22	0	.21	1.99	2.15	4.14	34	
TOTALS	10.01	14.27	4.91	4	5.05	8.17	23.59	4.07	2.11	5.76	45.67	36.27	81.94	837	
AVERAGES	.455	.6486364	.2231818	.1818182	.2295455	.3713636	1.072273	.185	.0959091	.2418182	2.075909	1.448636	3.724545	38.95455	

NUMBER OF PAGES IN 1974 ANNUAL REPORTS														% CHANGE	
COMPANY	HUMAN PICTURES	RESOURCES SCRIPT	COMM. PIC	INVOLVE SCRIPT	ENVIRONMENT PIC	PRODUCT SCRIPT	RELATED PIC	GENERAL SCRIPT	SUM ALL PICTURES	SUM ALL SCRIPT	SUM ALL PIC & SCT	REPORT PAGES	IN TOTAL REPORT PAGES		
52	.46	.8	.25	0	.5	.13	.33	.07	0	.02	1.54	1.02	2.54	25	28
7	.13	.4	0	.09	.13	.29	0	.07	0	.36	.24	1.41	1.67	30	86.67
21	0	0	0	0	0	0	0	0	0	0	0	0	0	32	15.63
4	0	.33	0	.04	0	0	1.14	.22	0	.12	1.14	.71	1.87	26	61.54
43	0	1.07	0	.2	0	.5	0	.99	0	0	2.74	2.74	17	5.88	
45	0	.12	0	0	2	.74	.9	.1	0	.07	2.9	1.03	3.93	22	0
9	1	.58	0	.11	.33	.55	.74	.07	0	1.19	1.31	2.5	3.8	32	56.25
40	0	.41	0	.05	0	.08	0	.15	0	.14	0	.83	.83	22	63.64
27	0	.12	.41	.5	.11	0	.38	.04	0	.69	1.1	1.35	2.45	29	13.79
14	0	.86	0	.45	0	0	0	.57	0	.11	0	1.99	1.99	34	-33.33
41	0	.11	.25	.22	1.08	.08	1.07	.45	.75	.47	3.15	1.53	4.68	34	0
40	0	.39	0	.19	0	.08	0	.07	0	0	0	.73	.73	18	83.33
13	.64	.23	0	.24	0	0	.33	.31	0	.05	.99	1.03	2.02	38	42.11
49b	0	.44	0	.03	0	.75	0	.07	0	.04	0	1.33	1.33	34	0
1	0	.1	.64	.18	.5	.24	1	.07	0	.08	2.16	.67	2.83	33	-9.09
47	0	.12	0	0	0	0	0	.06	0	.04	0	.22	.22	9	144.44
31	0	4.58	0	1.59	0	0	0	.18	0	.28	0	6.63	6.63	81	-29.63
43	0	.22	0	.52	0	.15	0	.08	0	.03	0	.57	1.57	24	70.83
50	0	.34	0	0	0	.1	1	.08	0	.05	1	.31	.31	7	300
22	0	.09	0	0	0	0	0	0	0	0	0	.09	.09	24	204.17
73	0	.31	0	0	0	0	0	0	0	0	0	.31	.31	24	38.46
11	0	1.01	0	.44	0	1.02	.4	.48	0	.2	.4	3.15	3.55	447	1178.10
TOTALS	1.35	12.63	1.77	4.85	4.65	4.71	7.33	4.53	.75	2.95	15.85	29.67	45.52	447	
AVERAGES	.0613636	.5740909	.0804545	.2204545	.2113636	.2140909	.3331818	.2059091	.0340909	.1340909	.7204545	1.348636	2.049091	29.40909	33.55

Source: Brooks, op.cit., p.85.

Brooks provided examples of the SRA disclosures of U.S. and Canadian Corporations and an international comparison of SRA studies, which is considered in a later section of this chapter.

8.60 United Kingdom

There appear to have been relatively few comprehensive analyses of U.K. company reports to determine the type and volume of SRA disclosures. However, there are a number of studies dealing with specific aspects of the SRA field such as value added statements or employee reports and reference has been made to these in other parts of this thesis. Gray, Owen and Maunders state that:

"In terms of systematic publications, CSR can be grouped under four headings: Value added statements, employment reports, employee reports and 'other' social reporting."³⁶⁰

Gray, Owen and Maunders³⁶¹ and Burchell, Clubb and Hopwood³⁶² have referred to the pattern of development and decline which appears to have affected value added statements in U.K. company reports during the 1970's and 1980's. The data from these studies, originating with the Institute of Chartered Accountants in England and Wales survey of published accounts, are given in Exhibit 42.

EXHIBIT 42

Value added statements in annual reports

Year	1975-6	1976-7	1977-8	1978-9	1979-80	1981-82	1982-83	1982-83
N	14	42	67	84	90	88	77	64
%	5	14	22	28	30	29	26	21

Although the use of value added statements is not increasing there appears to be a substantial minority of companies making use of this form of disclosure.

The same authors comment on the incidence of employment reports (information about the workforce) within the annual report. They state the percentages of companies providing employment statements to be; 1975-76 two, 1976-77 five, 1977-78 six, 1978-79 four, 1979-80 five, 1980-81 six, 1981-82 five and 1982-83 three.³⁶³

³⁶⁰. Gray, Owen and Maunders, op.cit., p.56.

³⁶¹. ibid., p.57.

³⁶². op.cit., p.386.

³⁶³. loc.cit.

The legislative framework which influences the disclosures of companies on employee related matters has been changing in recent years, particularly the Companies Act 1981 and 1985. However, the survey of company reports³⁶⁴ of 300 large companies shows that they are still providing disclosures in excess of the requirements of the Companies Acts. The details of these disclosures are given in Exhibit 43.

EXHIBIT 43

Human resource information disclosure in excess of companies act

Type of information	Number of companies 1982-83 (Total 300)
Health and safety	46
Training	53
Employee communication/participation/policy etc.	65
Pensioners	16

The number of companies disclosing at least one item was 120.
Source: Gray, Owen and Maunders, op.cit., p.59.

The third form of SRA disclosure referred to by Gray, Owen and Maunders is the employee report. Lyall³⁶⁵ analysed sixty employee reports received from a random sample of companies chosen from the Times 1000 largest U.K. companies. He found that the most frequent disclosures were profitability (57 companies) value added (43 companies) divisional information (29 companies) financial resources (21 companies) and capital investment (21 companies).

Marsh and Hussey analysed 302 employee reports and found that the most commonly included information was a financial highlights statement (77.2%), a value added statement (40.7%) and a balance sheet (38.7%).³⁶⁶

As indicated previously, comprehensive analysis of annual reports of UK companies, covering all categories does not seem to be very common. Gray, Owen and Maunders offer such an analysis in the form of a comparison with

³⁶⁴. Institute of Chartered Accountants, Financial Reporting 1982-84

³⁶⁵. Lyall, D., "Disclosure Practices in Employee Reports", Accountants Magazine (July 1982) pp.246-248, cited in Gray, Owen and Maunders, op.cit., p.168.

³⁶⁶. Marsh, A. and Hussey, R., "Survey of Employee Reports", Company Secretary's Review (Tolley, 1979) cited in Gray, Owen and Maunders, op. cit., p.170.

the results of the last of the Ernst and Ernst studies. This is introduced as Exhibit 44.

EXHIBIT 44
Frequency of publication of CSR information

	UK 1982/83	USA 1978
A. Environment		
1. Pollution control	10	133
2. Prevention or repair of environmental damage	7	15
3. Conservation of natural resources	-	39
4. Other environmental disclosures	-	46
B. Energy		
5. Conservation	16	126
6. Energy efficiency of products	10	45
7. Other energy related disclosures	2	29
C. Firm Business Practices		
8. Employment of minorities	1	52
9. Advancement of minorities	26	47
10. Employment of women	6	49
11. Advancement of women	-	142
12. Employment of other special interest groups	11	18
13. Support for minority businesses	-	18
14. Socially responsible practices abroad	15	43
15. Other statements on fair business practices	1	104
D. Human resources		
16. Employee health and safety	46	69
17. Employee training	53	80
18. Other human resource disclosures	75	32
E. Community involvement		
19. Community activities	13	56
20. Health and related activities	5	35
21. Education and the arts	11	70
22. Other community activity disclosures	7	56
F. Products		
23. Safety	11	42
24. Reducing pollution from product use	-	22
25. Other product related disclosures	14	46
G. Other social responsibilities disclosed		
26. Other disclosures	11	56
27. Additional information	49	16

Sources: UK data - analysis of sample of 300 reports used for Financial Reporting 1983-84.

USA data - Ernst & Ernst (1978) adjusted from sample size of 500 pro rata to 300 to provide comparison with UK.

Source: Gray, Owen and Maunders, op.cit., p.60.

8.70 Continental Europe

The literature relating to SRA disclosures in Continental Europe are dealt with in this section. The contributions are grouped together rather than

shown as individual countries. Although they are not of prime concern to this thesis, which is of necessity directed towards developing socially related accounting within Anglo-American influenced accounting systems, these reports enable a comparison to be drawn between Continental European and Anglo-American SRA disclosures.

8.71 Belgium

Theunisse³⁶⁷ has described the legal obligations which apply to Belgian enterprises and reported upon an empirical examination of annual reports of Belgian companies for the year 1977. Thirty four reports were examined (from the 50 largest limited companies) and the results are summarised below.

EXHIBIT 45 Contents of Annual Reports of Belgian Companies, 1977

Contents	% of reports
Value added statement	3
Number of employees	74
Labour turnover	56
Remuneration	47
Training possibilities	47
Age structure of workforce	29
Working conditions	26
Composition of workforce	24
Accidents	21
Social conflicts	18
Relations with other groups	15
Future staffing policy	29
Contact procedure between staff and management	44
Cosnumner related data	26
Data related to the environment	35

Source: Theunisse, op.cit., pp.19-21.

Theunisse noted that the reports were designed to give a good image of the company and that no audit provision existed in respect of the information provided. The cost of strikes was given prominence in annual reports.

Delmot³⁶⁸ has reported on social reporting by Belgian enterprises; in particular a sample of 58 companies in 1980. Of the 58 companies, 32

³⁶⁷. Theunisse, H., "Corporate Social Reporting in Belgium", Working Paper 79/08 (Faculty of Applied Economics, Antwerp University, 1979).

³⁶⁸. Delmot, A., "Social Written Information in Belgian Enterprises: Results of a Survey", a paper presented at the Workshop on Accounting in a Changing Social and Political Environment (Brussels, December 1982).

published social information within their annual reports (in addition to that which they are required by law to give to works councils). It was reported that 27 reports provided descriptive information, eight produced a value added statement, fifteen used non-monetary social indicators and twelve used ratios to impart the information. The contents of the social information section of the annual reports was given as follows.

EXHIBIT 46
Contents of social information in annual financial reports

Item	Percentage
Size and distribution of workforce	88
Labour turnover	78
Working hours	72
Remuneration and social charges	66
Training possibilities	63
Absenteeism	59
Hygiene and job security	59
Relations with social partners	59
Social works	44

Source: Delmot, op.cit., p.15.

The most common size of report was between two and four pages, a position reported by 41% of the companies surveyed; 28% reported more than four pages and 19% between one and two pages. The motivation for reporting was stated by some companies to be the French Bilan Social.

8.72 France

Because of the detailed legislative provisions in France there would appear to be little additional disclosure of a voluntary nature. The Bilan Social requires details of numbers employed, wages and fringe benefits, health and safety conditions, other working conditions, education and training, industrial relations, and other matters relating to the quality of working life for the current year and two preceeding years.

8.73 Germany

Gray, Owen and Maunders have reviewed the work on SRA disclosure in Germany and note that three approaches towards the production of social reports may be distinguished.

These are:

1. A broadly-based and partially integrated social cost-benefit reporting system.
2. An extension of the traditional employee oriented report.
3. Corporate goal accounting and reporting in which quantitative indicators are used wherever possible to describe the attainments of corporate objectives in areas of social performance (such as consumer and employee relations) and promotion of the general public welfare.³⁶⁹

Brockhoff examined the reports of 300 german companies issued between 1 December 1973 and 30 November 1974; 205 published a social report during that period. A variety of information was disclosed.

- i. Two companies explicitly stated that social activities had been made part of the objective function of the firm,
- ii. 256 reports published the total number of employees,
- iii. reports contained a wide variety of social benefits provided to employees including; sports and leisure activities, supplementary health insurance, company medical services, profit sharing and capital formation, training (not including apprenticeship programmes), security of the work place, employee housing, apprenticeship programmes, pensions and retirement benefits,
- iv. reporting on research and development,
- v. reporting on environmental protection.³⁷⁰

Brockhoff noted that there were very wide differences in reporting practices between industry segments.

³⁶⁹. Gray, Owen and Maunders, op.cit., pp.29-30.

³⁷⁰. Brockhoff, K., "A Note on External Social Reporting by German Companies: A Survey of 1973 Company Reports", Accounting, Organizations and Society, Vol.4 No.1/2 (1979) pp.77-85.

Dierkes³⁷¹ reported the results of a detailed analysis of the social reports of fourteen companies. The analysis addressed the following questions:

- "- which concept of reporting has been used, referring to the recommendation of the study group on practical aspects of social reporting?
- to whom is the social report directed?
- which functional group in the company has the ultimate responsibility in combining the report?
- was the report certified by a certified public accountant?
- which are the important sections of such a report and which areas are still neglected?
- what indicators are used?
- how intensive is the reporting with respect to giving specific data on expenditures or achievements?
- does it provide the reader with comparative information from previous performance periods or is it based on other companies' activities?
- is the report just narrative or does it give detailed technical information? and
- are goals, measures and plans mentioned in relatively specific terms or in very selective general statements?"³⁷²

The social reports are separate from the annual financial accounts of the corporation. The responses to some of the questions may be found in Exhibit 47, where the responses are given in numbers of pages.

³⁷¹. Dierkes, M., "Corporate Social Reporting in Germany: Conceptual Developments and Practical Experience", Accounting, Organizations and Society, Vol.4 No.1/2 (1979) pp.87-107.

³⁷². ibid., p.97.

EXHIBIT 47**Importance attached to various elements of the social report****Scope of the report (in number of pages)**

	Scope of brochure	Scope of SA (without illustration)	Goals	VA	SAC	Work	Physical environment	Social environment	Customers	Suppliers	Stockholders	Research + development	Business
Bayer	72	49		4		23	6	5		1		10	
BASF	48	24		3	8	12		1					
Hoechst	12	5		1		1	1				1	1	
Wella	61	6		1	2	1			1			1	
BP	39	12,5			(4)	9	1	1	1/2			1	
Shell	72	27	2	1 (1)	(2)	10	2	7	(2)		2	2	
STEG	30	23,5		4	3	8	2	1/2			1/8	6	
Saarberg	31	20		2	4	14							
Rud	10	5,5			(2)	4	1/2	1					
Rank	39	10		3	3	4							
Pieroth	22	18		2	7	9							
Bertelsmann	31	14		1	2	10		1					
Kolner	35	11,5		1/2	1	2		2	5				
Stadtspk	61	7		(1/8)		1,5		1	2				

Source: Dierkes, op.cit., p.98.

Schreuder³⁷³ has explained the complexities of social reporting in Germany, where several conceptual frameworks are in use, leading to correspondingly different reporting practices. A number of examples are given in his article, including the reports of STEAG A.G. and Deutsche Shell A.G. which have been widely quoted as examples of different forms of social report.

Schreuder concluded:

"The overview presented in this paper suggests that the German developments in the field of corporate social reporting are noteworthy in at least the following respects: (1) the variety of conceptual models proposed in the literature; (2) the actual course of the developments in practice; and (3) the evolving

³⁷³. Schreuder, H., "Corporate Social Reporting in the Federal Republic of Germany: An Overview", Accounting Organizations and Society Vol.4 No.1/2 (1979) pp.109-122.

debate between the corporations and the trade unions. As such these developments would seem to be of interest to students of corporate social reporting in many other countries."³⁷⁴

The Deutsche Shell report has been commented on by Van den Bergh³⁷⁵ and Most.³⁷⁶ Van den Bergh comments that "... employees are the most strongly emphasised group in all the (German) social reports", whilst for Most "... the 1975 annual report of Deutsche Shell A.G. is a portent of things to come."

The Deutsche Shell A.G. report (contents page only) is reproduced as Exhibit 48.

EXHIBIT 48

The concept of goal accounting - social reporting - the example of Deutsche Shell A.G

Table of Contents

1. Introduction.
2. The framework of Shell's policy; general developments in the energy market;
 - 2.1 The policy of the OPEC countries.
 - 2.2 The impact on the German mineral oil market.
 - 2.3 The Federal government's energy program.
 - 2.4 Obligation to maintain minimum stock levels.
 - 2.5 Structural and business activity problems of the mineral oil industry.
 - 2.6 Special levies on domestic oil and natural gas production.
 - 2.7 Long-term aspects.
3. The goals of Shell's corporate policy.
4. The performance of Deutsche Shell A.G.;
 - 4.1 Supplying the consumer on conditions determined by the market.
 - 4.2 Development of new application techniques and products.
 - 4.3 Achieving a reasonable return on investment.
 - 4.4 Taking account of our employees' interests.
 - 4.5 Paying regard to the general public welfare.
5. Explanations pertaining to the German Shareholders' Act;
 - 5.1 Explanations of the balance sheet.
 - 5.2 Explanations of the profit and loss account.
6. Tables;
 - 6.1 Social accounts.
 - 6.2 Relations with investors.
 - 6.3 Account of performance,
 - 6.4 Balance sheet.
 - 6.5 Profit and loss statement.

Excerpt from: Deutsche Shell A.G., op.cit., p.4.

Unauthorized translation by Dierkes & Coppock (1977).

Cited by Schreuder, op.cit., p.117.

³⁷⁴. ibid., p.121.

³⁷⁵. Van den Bergh, R., "The Corporate Social Report - the Deutsche Shell Experience", Accountancy (December 1976) pp.57-61.

³⁷⁶. Most, K.S., "Corporate Social Reporting: 'Model' Report by Deutsche Shell", The Accountant (February 10th 1977) pp.164-167.

8.74 Holland

Dekker and Van Hoorn³⁷⁷ have commented on the scarcity of empirical research on social reporting in Holland.

They cite four studies:

- i. Van Ommeren,³⁷⁸ who analysed 21 social or personnel annual reports for 1973 with regard to 29 elements related to the social policies of companies.
- ii. Feenstra, and Bouma,³⁷⁹ investigated the annual reports of 40 Dutch companies for the period 1970-73. They described aspects of the reports from which the concern shown for company personnel and the environment may be deduced. Many of the elements examined were common with those used by Van Ommeren.
- iii. Bakker³⁸⁰ examined 12 annual reports from 1973 on 13 elements of social policy.
- iv. De Gier³⁸¹ studied seven 1975 social annual reports on 18 elements related to the social policy of companies.

Dekker and van Hoorn³⁸² investigated 64 1975 social annual reports of Dutch companies to determine the contents. Their results are provided in Exhibits 49 and 50. Exhibit 49 shows the contents of a sample of 1975 Dutch social annual reports. Exhibit 50 shows the information provided which was not related to employees. It is clear that like many of the Continental European reports examined in this section most of the information provided relates to employees and their interests.

377. Dekker, H.C. and Van Hoorn, Th.P., "Some Major Developments in Social Reporting in the Netherlands Since 1945", Unpublished Discussion Paper (Department of Economics, University of Amsterdam, 1982).

378. Van Ommeren, A.W., Het sociaal jaarverslag. Informatiebron of verantwoordingsstuk, Personeelsbeleid, Sept. 1974 293 pp.

379. Feenstra, D.W. and Bouma, J.L., "Human Resource Accounting; some tentative statements and a preliminary examination concerning the presentation of non-accounting information in external reporting of some selected Dutch companies over 1970-73," a paper presented at the EIASM workshop on Human Resource Accounting, Brussels 1975.

380. Bakker, P.A.H., Het sociaal jaarverslag in opmars. Intermediair, 12 September 1975.

381. de Gier, E., Sociaal verslag gepunt, Zeggenschap 1 No. 1976) p.3.

382. Dekker, H.C., and van Hoorn, Th.P., "External reporting in the Netherlands: some observations about the state of the art and current issues", Research Memorandum 7612 (Department of Economics, University of Amsterdam 1977).

EXHIBIT 49
Contents of Dutch social annual reports in 1975

	A	B	C	D	Number of companies reporting (Nb %)	
General remarks as to financial, economical, social aspects		x		x	44	69
Main point of social policy		x		x	43	67
Main results and effects of social policy		x			2	3
Expectation for next year		x		x	27	42
Organisational structure of the company	x			x	21	33
Changes in the organisation	x				25	39
Organisation development			x		-	-
Consultation structure in the company		x			31	48
Consultation of workers on labour conditions and procedures	x	x	x	x	38	59
Work's council	x	x	x		57 ₁	89 ₁
Trade-union work within the company	x				9	18
Consultation with trade-unions		x	x		41	64
Labour conditions: - general	x	x			43	67
- development total wages sum		x			43	67
- wages and salaries policy		x		x	9	14
- social funds (incl. pension funds)	x	x		x	52	81
Job evaluation		x	x	x	20	31
Composition of personnel	x	x	x	x	54	84
Labour turnover	x	x			40	63
Promotion policy	x	x	x	x	7	11
Appointments policy		x		x	36	56
Dismissal policy			x	x	2	3
Training and education policy	x	x	x	x	53	83
Recruitment policy	x	x	x		28	44
Number of trainees		x			14	22
Working conditions	x	x	x		13	20
Job improvements		x	x		26	41
Changes in working conditions		x			6	9
Security measures	x	x	x	x	22	34
Accidents		x			21	33
Work's medical service	x	x	x	x	38	59
Absenteeism caused by illness	x	x			47	73
Company's social work	x		x	x	25	39
Recreation	x		x		33	52
Personnel Magazine	x				22	34
Jubilees	x				30	47
External relations	x				9	14
Activities on behalf of special groups of personnel	x		x		13	20
Housing of personnel			x		21 ₂	33 ₂
Value added: distribution			x		-	-
Cost of recruitment	x				3	5
Cost of absenteeism	x	x			1	2
Working hours-and holiday schemes				x	5	10
Rules and procedures for complaints				x	-	-

- A Recommendations of V.N.O. See: VNO/NCW., Sociaal Jaarverslag. Informatie aan het personeel. Den Haag, 1975.
- B Recommendations of F.M.E. See: Personeels - of sociaal jaarverslag. Monografie 8, februari 1974.
- C Desires of F.N.V. See: Open boek. Een nota over de behoefte van werknemers aan informatie over hun ondernemingen. Amsterdam, juli 1976.
- D Proposals in the new bill regarding the Work's Council, presented to Parliament in February 1977.

- 1) n = 51
2) not counted in the research
3) n = 64

Source: Dekker and van Hoorn op.cit., p.26.

EXHIBIT 50

Non employee related data reported in Dutch social annual reports 1975

- financial/economic expectations as to the future	27
- its consequences for the (internal) social policy	18
- ergonomics	4
- employees' participation in decision making	2
- suggestion box	22
- cost c.q. savings aspects of these suggestions	9
- impact on milieu of the environment	13
- measures to improve the milieu	9
- cost of these measures	0
- benefits of these measures	0
- contacts with local government	8
- contacts with action groups	0
- actions of action groups	0

Source: Dekker and van Hoorn, op.cit., p.27.

8.75 Sweden

Gray, Owen and Maunders suggest that Sweden provides examples of internal rather than external social reporting and cite a study by Jonson et. al. which calculated the financial savings resulting from a reduction in absenteeism.³⁸³ In a different type of study Grojer and Stark developed a goal oriented social accounting report, with the different constituencies receiving explicit consideration.³⁸⁴ Although employees featured prominently in the report, environmental factors were also included.

³⁸³. Jonson, L.C., Jonsson, B. and Svennson, B., "The Application of Social Accounting to Absenteeism and Personnel Turnover," Accounting, Organizations and Society, Vol.3 No.3/4 (1978) pp.261-268.

³⁸⁴. Grojer, J.E. and Stark, A., "Social Accounting : A Swedish Attempt", Accounting, Organizations and Society, Vol.2 No.4 (1977) pp.349-386.

8.80 Other Countries

Research into SRA disclosures is being carried out in several other locations in addition to those reviewed here. However, these appear to be isolated events and not part of any concentrated research effort.

Teoh and Thong³⁸⁵ have reported on SRA disclosures in Malaysia, and Low, Koh and Yeo³⁸⁶ on disclosures in Singapore. An Indian report is cited by Gray, Owen and Maunders³⁸⁷ and although described as an 'outlier' it is also thought to be important as a public sector development which may set an example for the private sector in that country. Tokutani and Kawano³⁸⁸ have provided an extensive note on the Japanese social accounting literature, some of which corresponds to SRA disclosures. Jaruga³⁸⁹ has provided an opportunity for western accountants to learn something of the accounting function in Poland. In a recent paper she comments on social responsibility matters. Although it is stated that social costs are internalised by the enterprise, there appears to be some conflict between the work of Polish accountants on behalf of the enterprise and that on behalf of society as a whole.

8.90 Limitations of these studies

8.91 Subjective Analysis

It is evident from the comparative works of Davey and Ng and the concern with replication expressed by Guthrie and the comments of Ernst and Ernst and Burke that some researchers are aware of the subjective nature of this type of investigation. There seems to be very little difference between qualitative data which is aimed at conveying information and statements which are designed for advertising purposes. Whether a self-congratulatory message imparts information depends upon the perceptions of the reader.

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- 385. Teoh, H.Y. and Thong G., "Another Look at Corporate Social Responsibility and Reporting - an Empirical Study in a Developing Country", Accounting, Organizations and Society Vol.9 No.2 (1984) pp.189-206.
 - 386. Low Aik Meng, Koh Hian Chye and Yeo Hian Heng, "Corporate Social Responsibility and Reporting in Singapore - a Review", Singapore Accountant, Vol.1 No.8 (1985) pp.7-13.
 - 387. Gray, Owen and Maunders, op.cit., p.26.
 - 388. Tokutani, M. and Kawano, M., "A Note on the Japanese Social Accounting Literature", Accounting, Organizations and Society, Vol.3 No.2 (1978) pp.183-188.
 - 389. Jaruga, A.A., "Social Responsibility of Accountants in Poland", Working Paper (Accounting Department, University of Lodz, 1984).

Many studies do not report any methodological safeguards or even acknowledge that there might be a problem at all.

This is not to argue against this type of research. However, researchers have to guard against the inherent subjectivity of the analysis through publication of the instruments used and attempts at replication by the same and other analysts. Ernst and Ernst have addressed this issue but conclude that the data is an understatement in the final analysis. This is only a partial solution to the difficulties presented by subjectivity.

The surveys reported here suggest that replication studies are urgently needed, since although Guthrie has found his own instrument to be reliable, the Davey approach has produced conflicting results when used on the same material by a second researcher. Other studies have been reported as single studies, often without all the details.

The subjective nature of many of the qualitative SRA material makes analysis extremely problematic. Consequently, until studies are commonly replicated, all those interested in the area must be wary of accepting published results too readily. A further issue is to what extent disclosures can be compared between different accounting systems.

8.92 The interrelationship of culture and accounting

A further difficulty arises because of cultural and other influences at work in different accounting environments. This issue is considered in depth since it provides a possible explanation for many of the differences in reporting practices which were illustrated in the earlier part of the chapter.

It has been demonstrated that the effects of culture may be used to group countries together in order to study their accounting systems.³⁹⁰ Although a relatively recent area of study, the culture-accounting interrelationship has provided some interesting ideas. This section attempts to apply some of these ideas and developments to the social accounting field.³⁹¹

³⁹⁰. Gray, S.J. "Cultural Influences and the International Classification of Accounting systems", a paper presented to the EIASM Workshop on Accounting and Culture, Amsterdam (June 1985).

³⁹¹. Perera, M.H.B. and Mathews, M.R., "The Interrelationship of Culture and Accounting with Particular Reference to Social Accounting", Discussion Paper No.59 (Department of Accounting and Finance, Massey University, June 1987).

Research on national systems of accounting has focussed particularly on the Anglo-American countries (i.e. USA, Canada, U.K. Australia and New Zealand) and Continental Europe,³⁹² Lafferty,³⁹³ Benston,^{394,395} Oldham,³⁹⁶ Nobes and Parker³⁹⁷ Holzer.³⁹⁸ As national differences in accounting systems and practices became increasingly evident attempts were made to identify international patterns and to classify countries on the basis of those patterns. Two alternative approaches have been taken, the first involves the identification of relevant environmental factors and links them to national accounting practices Mueller,^{399,400} Zeff,⁴⁰¹ Radeburgh,⁴⁰² Nobes.^{403,404} The second involving the classification of accounting practices by using statistical analysis and then attempting to explain the patterns discovered by reference to environmental factors, Frank,⁴⁰⁵ Nair

-
392. Zeff, S.A., Forging Accounting Principles in Five Countries : A History and an Analysis of Trends (Stipes, 1972).
393. Lafferty, M., Accounting in Europe (Woodhead - Faulkner, 1975).
394. Benston, G.J., "Accounting and Corporate Accountability", Accounting, Organizations and Society, Vol.7 No.2 (1982).
395. Benston, G.J., "An Analysis of the Role of Accounting Standards for Enhancing Corporate Government and Social Responsibility", Journal of Accounting and public Policy (Fall 1982).
396. Oldham, K.M., Accounting Systems and Practices in Europe (Gower, London, 1981).
397. Nobes, C.W. and Parker, R.H., Comparative International Accounting (Philip Allan, Oxford, 1981).
398. Holzer, H.P., (Ed) International Accounting (Harper and Row, London, 1984).
399. Mueller, G.G., International Accounting (McMillan, New York, 1967).
400. Mueller, G.G., "Accounting Principles Generally Accepted in the United States Versus Those Generally Accepted Elsewhere", International Journal of Accounting Education and Research (Spring, 1968).
401. Zeff, op.cit.
402. Radebaugh, L.H., "Environmental Factors Influencing the Development of Accounting Objectives, Standards, and Practices in Peru", International Journal of Accounting Education and Research (Fall, 1975).
403. Nobes, C.W., "A Judgemental International Classification of Financial Reporting Practices", Journal of Business Finance and Accounting (Spring, 1983).
404. Nobes, C.W., International Classification of Financial Reporting (Croom Helm, 1984).
405. Frank, W.G., "An Empirical Analysis of International Accounting Principles", Journal of Accounting Research (Autumn, 1979).

and Frank,⁴⁰⁶ Da Costa et al,⁴⁰⁷ Goodrich,⁴⁰⁸ Belkaoui.⁴⁰⁹

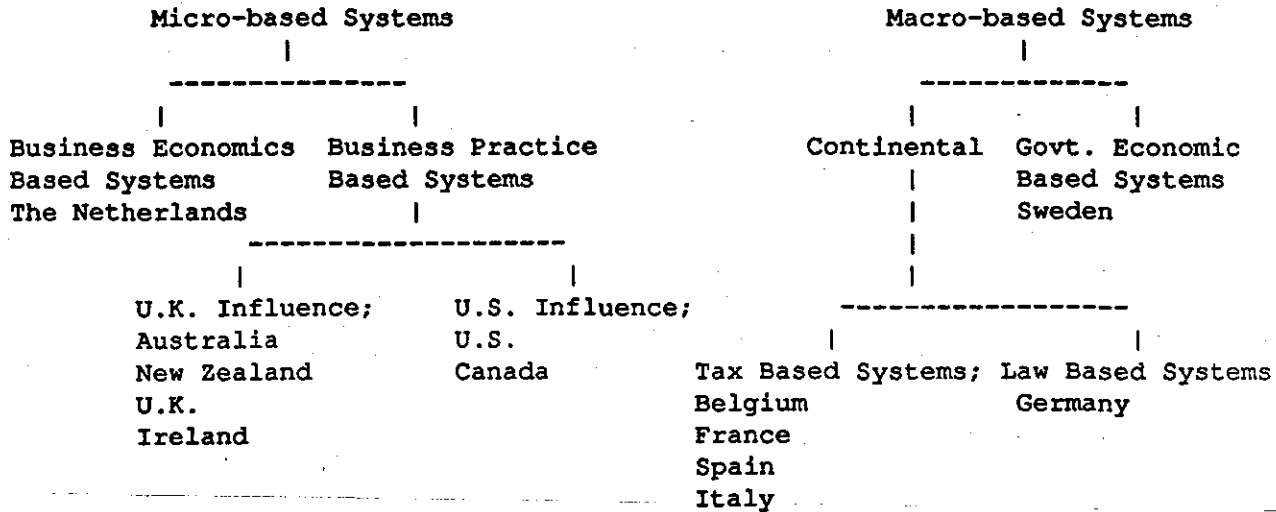
It is interesting to note that many of the classifications developed through the above approaches suggest, inter alia, significant differences between Anglo-American countries and Continental European countries in terms of their patterns of accounting development. For example, Mueller identified four categories of accounting system in western capitalist countries, namely (i) accounting in a macro framework, where enterprise accounting is closely linked with national economic policies (Germany, Sweden), (ii) accounting based upon micro economic factors, where accounting is regarded as part of business economics (Netherlands), (iii) accounting as an independent discipline, where accounting is regarded as a separate service function in business practice (U.K., U.S.A.) and (iv) uniform accounting, where accounting is viewed as a regulatory device (France). Nobes adopted Mueller's analysis as the basis of a classification which divided western capitalist countries and their accounting systems into two broad categories, micro-based systems and macro-uniform systems. Sub-classifications were also identified. Micro-based systems were divided into business economics based (Netherlands) and business practice based systems. The macro-uniform systems were divided into Continental and government economic based systems (Sweden). Nobes went on to divide the business practice based group into systems under UK influence (Australia, New Zealand, U.K., Ireland) and under U.S. influence (Canada, U.S.) and the Continental group into tax based systems (Belgium, France, Spain, Italy) and law based systems (Germany).

It can be seen that the Anglo-American countries are grouped as micro-business practice based systems whereas the European countries, with the exception of the Netherlands, are grouped together as macro-uniform systems. The classifications put forward by Mueller and Nobes are set out as Exhibits 51 and 52 below.

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- ⁴⁰⁶. Nair, R.D. and Frank, W.G., "The Impact of Disclosure and Measurement Practices on International Accounting Classification", Accounting Review (July 1980).
- ⁴⁰⁷. Da Costa, R.C., Bourgeois, J.C. and Lawson, W.M., "A Classification of International Financial Accounting Practices," International Journal of Accounting Education and Research (Spring 1978).
- ⁴⁰⁸. Goodrich, P.S., "Accounting and Political Systems", Discussion Paper No.109 (School of Economic Studies, University of Leeds, 1982).
- ⁴⁰⁹. Belkaoui, A., "Economic, Political and Civil Indicators and Reporting and Disclosure Adequacy : Empirical Investigation", Journal of Accounting and Public Policy (Fall, 1983).

EXHIBIT 51Classification of accounting systems Mueller 1967

1.	2.	3.	4.
Accounting in a macro framework; Germany Sweden	Micro economic factors; The Netherlands	Service function in business practice; U.K. U.S.A.	Uniform accounting; France

EXHIBIT 52Classification of accounting systems Nobes 1983-1984

One of the significant outcomes of research endeavours in the comparative analysis of accounting in different countries, has been an enhanced awareness of the importance of environmental factors in moulding a country's accounting system. This in turn has led to serious attempts at identifying both the relevant environmental factors and the mechanism by which such factors influence accounting. In this context culture is often considered to be one of the powerful environmental factors impacting upon the accounting system of a country. The argument put forward is that because accounting is a socio-technical activity it involves dealing with both human and non-human resources or techniques as well as with the interaction between the two. Although the technical aspect of accounting is less culture-dependent than the human aspect, since the two interact, accounting cannot be culture-free. Furthermore, it has been argued that accounting is in fact culture determined.⁴¹⁰

⁴¹⁰. Violet, W.J., "The Development of International Accounting Standards : An Anthropological Perspective", International Journal of Accounting Education and Research (Spring 1983).

Accounting and Culture

Recently there has been an increasing interest in applying behavioural ideas to accounting. This has, no doubt, enriched the field and contributed significantly to changing the status of accounting from being a purely technical discipline. Research in this area has ranged from a consideration of the psychological factors which influence the preparers of accounting statements, to a socio-political consideration of the role of accounting in organisations and societies. The most recent set of ideas emanating from the established social science area, to be applied to accounting, comes from cultural anthropology. Culture has featured prominently in more recent discussions of the factors influencing the accounting development of a country^{411, 412, 413, 414, 415}. It has also been argued that the lack of consensus across different countries on what represents proper accounting methods is because their purpose is cultural not technical. The content of reports depends on local history and convention.⁴¹⁶ This is probably why the product of accounting, i.e. financial statements and reports, sometimes has a shareholder orientation, other times a creditor orientation and occasionally it serves the interests of national planners or public administrators.⁴¹⁷

It is clear that cross-cultural behavioural research in accounting is likely to provide some explanation about why there are differences in accounting techniques and practices between countries and to answer questions about whether the findings of researchers in one culture can be transformed without modification for effective use in another culture.

411. Nobes and Parker, op.cit.

412. Bromwich, M. and Hopwood, A.G., Accounting Standard Setting : An International Perspective (Pitman, 1983).

413. Choi, F.D.S. and Mueller, G.G., International Accounting (Prentice Hall, 1984).

414. Arpan, J.S. and Radebaugh L.H., "An International Implication for Accounting", International Accounting and Multinational Enterprises (Wiley, 1985).

415. Perera, M.H.B., "The Relevance of International Accounting Standards to Developing Countries", Research Monograph (University of Glasgow, 1985).

416. Hofstede, G., "The Ritual Nature of Accounting Systems" a paper presented at an EIASM Workshop on Accounting and Culture (Amsterdam, June 1985).

417. Mueller, G.G., "Is Accounting Culturally Determined", a paper presented at an EIASM Workshop on Accounting and Culture (Amsterdam, June 1985).

In the field of management, Hofstede has sought to analyse differences in work-related values across cultures. His study was based upon data collected through an employee attitude survey in a multi-national corporation. The survey took place twice between 1968 and 1973, involving different subsidiaries in sixty four countries, and 116,000 questionnaires in 20 languages.⁴¹⁸

Culture Based Societal Value Dimensions

In an attempt to develop a commonly acceptable, well defined and empirically based terminology to describe cultures, Hofstede identified four distinct dimensions which he considered to reflect the cultural orientation of a country. These were (a) Individualism versus Collectivism (b) Large versus Small Power Distance (c) Strong versus Weak Uncertainty Avoidance and (d) Masculinity versus Femininity. The main features of each of the dimensions is discussed below followed by a consideration of their implications for accounting.

Individualism versus Collectivism

This dimension relates to the degree of integration a society maintains amongst its members, or the relationship between an individual and his/her fellow individuals. Individualism stands for a preference for a loosely knit social framework in society, wherein individuals are supposed to only take care of themselves and their immediate families. On the other hand, Collectivism stands for a preference for a tightly knit social framework in which individuals can expect their relatives or other in-group to look after them in exchange for unquestioning loyalty.

The identified characteristics of this dimension tend to raise some questions in regard to established theories which have a bearing on management thought in general, for example, the general validity of economic theories based on self-interest, and of psychological theories based on self-actualization, because in a collectivist society, preference is given to collective interest and achievement. Some other issues that are likely to become important under this dimension include the nature of the employer-employee relationship, and the priority given in business. In

⁴¹⁸. Hofstede, G., "Dimensions of National Cultures in Fifty Countries and Three Regions", in Dregowski, J.B., Dziurawiec, S. and Annis, R.C. (Eds.) Explications in Cross Cultural Psychology (Swets and Zeitlinger, 1983).

an individualist society, employer-employee relationships tend to be calculative, whereas in a collectivist society, such relationships tend to be morally based. On the other hand, in an individualist society, priority in business is given to task rather than to the relationship as it is in the case of a collectivist society. Hofstede concludes that the degree of individualism in a country is statistically related to that country's wealth.⁴¹⁹ Accordingly, wealthy countries tend to be more individualistically oriented, whereas poor countries tend to be more collectivistic. This would seem to indicate an aspect of clear difference in societal values that exists between countries.

Large versus Small Power Distance

This dimension relates to the extent to which the members of a society accept that power in institutions and organisations is distributed unequally. For example, in large power distance societies, people tend to accept a hierarchical order in which everybody has a place which needs no further justification, whereas in small power distance societies people tend to strive for power equalization and demand justification for those power inequalities that do exist. The identified characteristics of this dimension tend to draw attention to issues such as whether subordinate consultation is necessary or paternalistic management is accepted. In a large power distance society, subordinate consultation may not be as important as in a small power distance society, because there is a tendency for its members to accept paternalistic management. The degree of inequality in a society is measured by the extent of power distance. The level of power distance is related to the degree of centralisation of authority and the degree of autocratic leadership. Societies in which power tends to be distributed unequally can remain so because this situation satisfies the psychological need for dependence of the people without power. In other words, the value system of the two groups are complementary. Hofstede identifies a global relationship between power distance and collectivism.⁴²⁰ Collectivist countries always show large power distance, although individualist countries do not always show small power distance. It is interesting to note that all poor countries are collectivist with large power distance.

⁴¹⁹. Hofstede, G., "The Cultural Relativity of Organizational Practices and Theories", Journal of International Business Studies (Fall 1983) p.80.

⁴²⁰. *ibid.*, p.82.

Strong versus Weak Uncertainty Avoidance

This dimension relates to the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity. The fundamental issue involved here is how a society reacts to the fact that the future is unknown; whether it tries to control the future or to just wait and let it happen. In the weak uncertainty avoidance societies people have a natural tendency to feel relatively secure, whereas in strong uncertainty avoidance societies people tend to try and beat the future, because the future remains essentially unpredictable and there will be higher level of anxiety. In such societies, there will also be institutions that try to create security and avoid risk. One important way of creating security is through the legal and other formal rules and institutions, whereby protection is provided against the unpredictability of human behaviour. The existence of a relatively high degree of planning of economic activities in strong uncertainty avoidance societies could also be explained in terms of this value dimension. Religion is another way of creating a feeling of security. All religions attempt to create in the minds of people an expectation of something which is certain.

The identified characteristics of this dimension tend to draw attention to the existence of an emotional need for formal and informal rules to guide behaviour, the degree of formalisation, standardisation and ritualisation of organizations, the extent of tolerance for deviant ideas and behaviour and the willingness to take risks. There are different patterns of relationship between the degree of uncertainty avoidance and power distance.

Masculinity versus Femininity

This dimension relates to the division of the roles between the sexes in society. Masculinity stands for a societal preference for showing off, achievement, heroism, assertiveness, making money or enjoying material success, thinking big and so on. Femininity stands for a preference for putting relationships with people before money, helping others and caring for the weaker, the quality of life, preservation of the environment, "small is beautiful" and so on.

The characteristics identified by this dimension tend to draw attention to the existence within society of competitiveness as against solidarity,

equity against equality, and achievement motivation as against relationship motivation. Career expectations, and the acceptability of macho manager behaviour are some of the issues raised by this dimension. On this dimension there is no identifiable pattern between countries.

Different Cultural Environments : Anglo-American versus Continental European

It may be reiterated here that the ideas developed in any society are a product of the socio-politico-economic environment. Therefore, a proper understanding of that environment is a precondition for any considered explanation of why the participants behave in a particular way, because human behaviour is usually reflective of some pattern of thinking. This can be illustrated by a number of specific examples. The growth of economic activity in the U.K. took place in an atmosphere of classical liberalism with a broadly laissez-faire approach to government. This was also true of the economic growth that began to gain momentum in the U.S. in the middle of the 19th century. In such a highly individualist atmosphere, the promotion of investment, by trying to interest people with uncommitted funds in various investment projects, became an important activity. Once prospective investors began to assess investment opportunities on the basis of their expected earnings, financial statements that included some kind of earnings figure became a necessity for the functioning of the entire system.⁴²¹ This was the background for the development of capital market activity which is the main source of funds for investment in both countries. The activities of these markets have resulted in continuous pressure being exerted for the provision of financial information for investors, making investors the most important recipients of accounting reports from companies.^{422, 423} The pressure for disclosure had a significant effect on the development of accounting principles and practices in these countries and the requirements of the capital markets became a major influencing factor in their disclosure patterns. Furthermore, financial reporting and capital market activity were so closely related that they became interdependent.⁴²⁴ Similar developments

⁴²¹. Abel, R., "The Impact of Environment on Accounting Practices : Germany in the Thirties", International Journal of Accounting Education and Research (Fall 1971).

⁴²². Trueblood report, op.cit.,

⁴²³. FASB, SFACI, op.cit.,

⁴²⁴. Barrett, V.M.E., "The Extent of Disclosure in Annual Reports of Large Companies in Seven Countries", International Journal of Accounting Education and Research (Spring 1977).

took place in other Anglo-American accounting countries such as Australia, Canada and New Zealand. It was assumed that these developments should be implemented by accountants, independent of legal direction or government intervention.

The position in much of Continental Europe is quite different from that outlined above. In both France and Germany there has been a tradition of state intervention in economic affairs. Unlike the position in the U.K. and the U.S. the influence of the classical economists was far more limited in Continental Europe. Instead, there have been a succession of economic theories with a common thread of anti-individualism. Financial accounting in France is generally influenced by legislation, due mainly to the determination of the French Government to obtain data for macro-accounting purposes. The 1947 Plan Comptable General, which has been adopted by virtually all enterprises in the country, contains a detailed chart of accounts and a series of model financial and statistical reports which are considered necessary for micro-and macro-accounting purposes. The French plan makes it clear that amongst its objectives in seeking data on an enterprise are, (a) the promotion of more reliable national economic policies, (b) the minimisation of social misunderstandings, (c) ensuring the availability of data for government studies of market trends and, (d) assistance to the government authorities in exercising control over the economy. Furthermore, French companies have traditionally relied much less upon an active new issue market as a source of long-term funds than have U.K. and U.S. companies. This has resulted in a lower emphasis being given to the provision of investor-oriented corporate financial reporting and to the audit function as a safeguard for investors. Therefore, the primary influence upon the development of accounting principles and practices in France has been the General Accounting Plan, rather than the pronouncements of the accounting profession. Similarly, in Germany, as demand for industrial capital increased during the second half of the 19th century, strong banks, rather than individuals organised by a promoter, emerged as suppliers of a significant portion of that capital.

The environmental differences described above are reflected in the different approaches taken in those countries with regard to accounting issues. For example, it is widely held that accounting reports should be oriented towards the user's needs on the assumption that the public interest will be best served by a user orientation. In industrialised

countries the public interest is taken to be synonymous with the interest of the main group that provides capital. However, this group varies from one country to another, for instance in the U.S. it is the private investors⁴²⁵ in the U.K. it is the institutional investors such as pension funds and building societies,⁴²⁶ in France it is the family holdings and the state, and in Germany it is the banks.⁴²⁷ The social and cultural differences between these countries can also be seen in the paths they have taken towards the development of social reporting.

Social Reporting : International Pressures for More Disclosure and National Disclosure Patterns

There has been considerable pressure at an international level, particularly from the UN and the EEC, for greater disclosure with special reference to information which is relevant to employee interests. The 1977 UN proposals highlighted the need to extend the scope of required disclosures beyond purely financial reporting.⁴²⁸ These proposals, although not specifically recommended, favoured the production of separate social reports. Areas identified for disclosure were, labour and employment, production, investment programmes, organisational structure and environmental measures.

The fifth EEC directive on employee information and consultation, and the Vredeling proposals for giving information rights to employees of 'large' companies (issued in 1980 and revised in 1983) are even more extensive in scope. The directive requires the disclosure of information relating to corporate organisational structure, employment, the economic and financial situation, probable developments in production, sales and employment, production and investment programmes rationalisation plans, and plans for new working methods or other methods that could have "a substantial effect" on employee interests. The OECD⁴²⁹ also requires the disclosure of the average number of people employed, categorised by function, together with employment costs showing social security costs and pensions. However,

425. Nobes and Parker, op.cit., p.64.

426. Lee, T.A. and Tweedie, D.P., The Private Shareholder and the Corporate Report (ICAEW, London, 1977).

427. Hopwood, A.G. and Schreuder, H., (Eds) European Contributions to Accounting Research : The Achievements of the Last Decade (Free University Press, Amsterdam, 1984).

428. United Nations, International Standards of Accounting and Reporting for Transitional Corporations (UN, New York, 1977).

429. Organisation for Economic Co-operation and Development, Accounting Practices in OECD Member Countries (OECD, 1980).

despite these pressures at an international level for a well chosen programme for promoting greater disclosure in social reporting, the extent of regulation at national level tends to be minimal⁴³⁰ with the notable exception of France, where employee reports are required by law. In France, since 1977 large corporations have been required by law to publish a separate social report (Bilan Social). In that report detailed information must be disclosed about a wide range of matters including employment; wages, salaries and social security payments; hygiene and safety; conditions of work; training; and trade union activities. The emphasis here is on the impact of the corporation on employees. The extent of voluntary disclosure is significant and growing in other European countries such as Germany, the Netherlands and Sweden, where additional special employee reports are often provided.^{431, 432}

Information relating to employees is also required to be disclosed by U.S. and U.K. companies but the instances are fewer and the required disclosures are relatively minimal.

Some Specific Examples of Differences in Reporting Practices

Employee Reporting

The Continental European countries seem to be much more advanced in regard to 'social' or 'employee' reporting, at both institutional and practical levels, than the Anglo-American countries. This can be explained to some extent in terms of their different cultural environments because systems usually develop unique characteristics as a result of both internal and external pressures. Pressure groups and institutional influences which are active in developing social disclosures in industrialised countries generally include employees and trade unions, shareholders, community leaders, environmentalists, consumerists, idealists and moralists, professional guidelines and pronouncements, and legislation and regulation. In a given country some of these groups will be more prominent than the others, and the emergence of such pressure groups is likely to be influenced by the cultural background. As clearly demonstrated elsewhere

⁴³⁰. Gray, S.J., McSweeney, I.B. and Shaw, J.C., Information Disclosure and the Multinational corporation (John Wiley, Chichester, 1984).

⁴³¹. Schoenfeld, H.M., "The Status of Social Reporting in Selected Countries", Contemporary Issues in International Accounting Occasional paper No.1 (University of Illinois, Urbana, 1978).

⁴³². Schreuder, op.cit.

by historical development and also by Hofstede's analysis of culture, the U.K. and U.S. are both oriented towards individualism, whereas France and Germany are relatively less individualist and more collectivist oriented. It is interesting to see how the pressures for social disclosures have varied between these two groups of countries. Employees have been a powerful force in France and Germany whereas consumerists and environmentalists have been predominant in the U.S. and to a lesser extent the U.K.

Industrial Democracy

In the collectivist oriented cultures of Continental Europe, industrial democracy or worker representation has provided a co-determination framework for corporate performance and disclosures. As a result, employees have been a powerful force. By contrast, in individualist cultures, the relationship between the employer and employee is a business relationship based on the assumption of mutual advantage. Either party can terminate the relationship in favour of a better deal elsewhere. In classical economic theory, which was largely responsible for moulding the individualist cultural thinking employees are "labour", a "factor of production" and "part of a labour market". They are not regarded as important contributors to decision making by the management. This is why employee and union pressure in North America has been relatively insignificant. For example, when top-ranking officials of each of the 20 largest Canadian unions were surveyed in 1984 about industrial democracy, they did not agree that workers should be represented on boards of directors and doubted that this would become widespread by 1994.⁴³³ Therefore, contrary to the European experience, social disclosures in the U.S. and Canada have developed from other forces such as environmentalists, consumerists and idealists. Also, in the U.K., the issue of expanded social reporting has not met with rapid acceptance, partly due to the current value accounting debate which has tended to retain the forefront of disclosure proposals.

Environmental Disclosures

In contrast to the position on employee reporting there is some evidence of a greater concern on environmental matters in North America. Tinker⁴³⁴ has

⁴³³. Brooks, op.cit.

⁴³⁴. Tinker, op.cit.

referred to the Love Canal scandal, Wiseman⁴³⁵ and Rockness⁴³⁶ have examined the veracity of corporate disclosures on environmental matters, and the Ernst and Ernst studies (1972-1978) of disclosures by Fortune 500 companies showed that considerable attention was given to environmental matters. A summary of the 1978 survey was shown as Exhibit 44 earlier in the chapter. The exhibit also incorporates similar data from U.K. studies. The categories provided are in contrast with Continental European reports which emphasise employee matters almost exclusively.

EXHIBIT 53
Issues addressed in corporate social reports

	West Germany n=16x2	Austria n=6x2	Switzer- land n=9x2	Japan n=29	US Monetary n=500	Non trali n=50	Aus- trali n=50
	Two Year Period			One Year Period			
Human Resources							
General person. policy	12	4	14	3	30	89	26
Size of work force, distribution, changes	10	5	7	2			
Employ of foreigners	3	1	2				
Labour costs	11	6	6	2			
Working conditions	10	1	2	2			
Training & development	15	6	12	2			
Fringe benefits - general	19	10	10	1			
Employee health services	9		1				
Company pension plans	8	5	4				
Company housing	9	2	3	1			
Employee ownership of property	4		1				
Labour representation	5		2	2			
Communication with employees	7		3				
Communication involvement	NA	NA	NA	NA	54	71	8
Environment	19	1	10	10	161	61	6
Energy	NA	NA	NA	NA	39	107	1
Product related matters	NA	NA	NA	10	1	7	0
Research & development	9	4	7	NA	NA*	NA*	
Miscellaneous	7	2	8	12	1	1	5
Stockholder relations	6			4	NA	NA	
Fair business practice	NA	NA	NA	NA	19	70	

Notes: Sources per Table 8.4 US statistics do not include 180 companies with only non-monetary, verbal disclosures.

*Subsequent to the survey date, the FASB required research and development disclosure.

Source: Brooks, op.cit., p.213.

435. Wiseman, op.cit.

436. Rockness, J.W., "An Assessment of the Relationship Between U.S. Corporate Environmental Performance and Disclosure", Journal of Business Finance and Accounting, Vol.12 No.3 (1985).

Brooks has provided a useful analysis of the issues addressed in corporate social reports. The results are presented as Exhibit 53 and show the different emphases which have already been noted.

A number of attempts have been made to link the provision of environmental information, whether supplied by the reporting organisation or an outside body such as the council for Economic Priorities (CEP), with changes in the market price of shares. This work, which has already been discussed in chapter two, follows the general trend of the individualist, market related, cultural features already referred to.

Conversely, the discussion of the measurement and valuation of externalities has been contested by several academics on the grounds that shareholders would be forced to pay for additional information which they would not want. The same view would be put forward in relation to other social disclosures.

Institutional Requirements and Uncertainty Avoidance

It is also clear that the European Companies are much more subject to institutional requirements for social disclosure than are their North-American counterparts. This may also have a cultural basis because the extent to which people feel that behaviour should follow fixed rules differs from one culture to another. It is important to note here that the Continental European countries, in particular France and Germany, are high on the Uncertainty Avoidance scale, whereas Anglo-American countries are relatively low on the same scale. The characteristics of the Uncertainty Avoidance dimension reveals that in cultures which are high on the scale, behaviour tends to be more rigidly prescribed, either by written rules or by unwritten social codes; the presence of these rules satisfies people's emotional needs for order and predictability in society, and people feel uncomfortable in situations where there are no rules. In cultures low on the scale, although there will be written and unwritten rules, people are able to live comfortably in situations where there are no rules. Therefore, in general one can expect more formalisation and institutionalisation of procedures in strong uncertainty avoidance societies than in weak uncertainty avoidance countries.

It is suggested that there are direct associations between societal values and accounting values. Accordingly, where there is a high level of individualism in a society it will have a positive effect on the degree of professionalism and negative effects on the degrees of uniformity, conservatism and secrecy preferred in the accounting sub-culture. Where there is strong uncertainty avoidance in a society it will have a negative effect on the degree of professionalism and positive effects on the degrees of uniformity, conservatism and secrecy preferred in its accounting sub-culture. The former represents the situation in Anglo-American countries whilst the latter conditions apply in Continental European countries particularly France and Germany. For example, there is a preference for the exercise of individual professional judgement, the maintenance of professional self-regulation, and flexibility in accordance with the perceived circumstances of individual companies in the accounting sub-cultures of Anglo-American countries, whereas there is a preference for compliance with prescriptive legal requirements and statutory control, the maintenance of uniform accounting practices between companies, and the consistent application of such practices over time in the accounting sub-cultures of Continental Europe. Also, there is more support in the latter group for a prudent and cautious approach to measurement to cope with the uncertainty of future events and the confidentiality of the information by restricting disclosures to only those involved with the management and financing of the organisation. These characteristics in turn tend to influence the degree of disclosure expected in the respective accounting systems or practices. For example, in France and Germany, where the level of professionalism is relatively low and the preference for conservatism and secrecy is relatively high, the combined effect on the degree of disclosure will be negative. On the other hand, the collectivist or anti-individualist values of the society require business enterprises to be accountable to society by way of providing information, therefore, it becomes necessary for the government to intervene and lay down certain disclosure requirements, including those in regard to social accounting. Furthermore, this situation is not likely to be rejected by the accounting profession, because as discussed earlier, there is a preference for compliance with prescriptive legal regulation and statutory control in the accounting sub-culture. By comparison, in the US and UK, although the relatively high level of professionalism and the low level of preference for conservatism and secrecy tend to have a positive combined effect on the

degree of disclosure in accounting practices, the individualistic values of the society are more concerned with the provision of information to shareholders or investors than with those issues involving accountability to society at large.

Concluding Comments

This section of the chapter has explored the implications that recent work on the effects of culture on accounting may have for social accounting, as a developing area within the accounting discipline. The study of the impact of culture on accounting has a relatively short history and has not yet been extended to the developing area of social accounting. No attempt has been made at this stage to consider differences within the major groups such as those between US and Canada and the extent to which the UK approach is moving towards that of Continental Europe as a result of that country's entry to the EEC.

The application of the work of Hofstede and others to the field of international accounting differences is worthy of a further extension to the social accounting field and should not be ignored by social accountants working in both empirical and normative-deductive domains.

8.100 Chapter Summary

This chapter has examined a number of studies which detail actual SRA disclosures in several countries. These disclosures vary in content but most are of qualitative or non-financial quantitative information provided by private sector organisations excepting for financial data in value added statements. The reports may be voluntary or compulsory depending upon the country concerned. In most of the Anglo-American accounting systems (U.S., Canada, U.K., Australia, New Zealand) SRA disclosures are voluntary. In most of the Continental European countries examined (France, Germany, Belgium, Holland, Sweden) there are systems of legislative requirements, concerned mainly with reporting to employees, which impact on the disclosures made by corporations. In addition to legislative and customary differences in the volume and type of disclosures, there appear to be differences in their nature, with North American and Australasian disclosures comprehending a wider variety of information (environment, product, energy as well as employment) and the Continental European corporations concentrating on those matters which affect employees. U.K. disclosures appear to occupy a point between the other two groups with more

systems, but also sharing some of the wider interests of those systems compared to the Continental Europeans.

The various aspects of SRA disclosures are brought together in Exhibit 54.

EXHIBIT 54

A summary of social responsibility accounting components

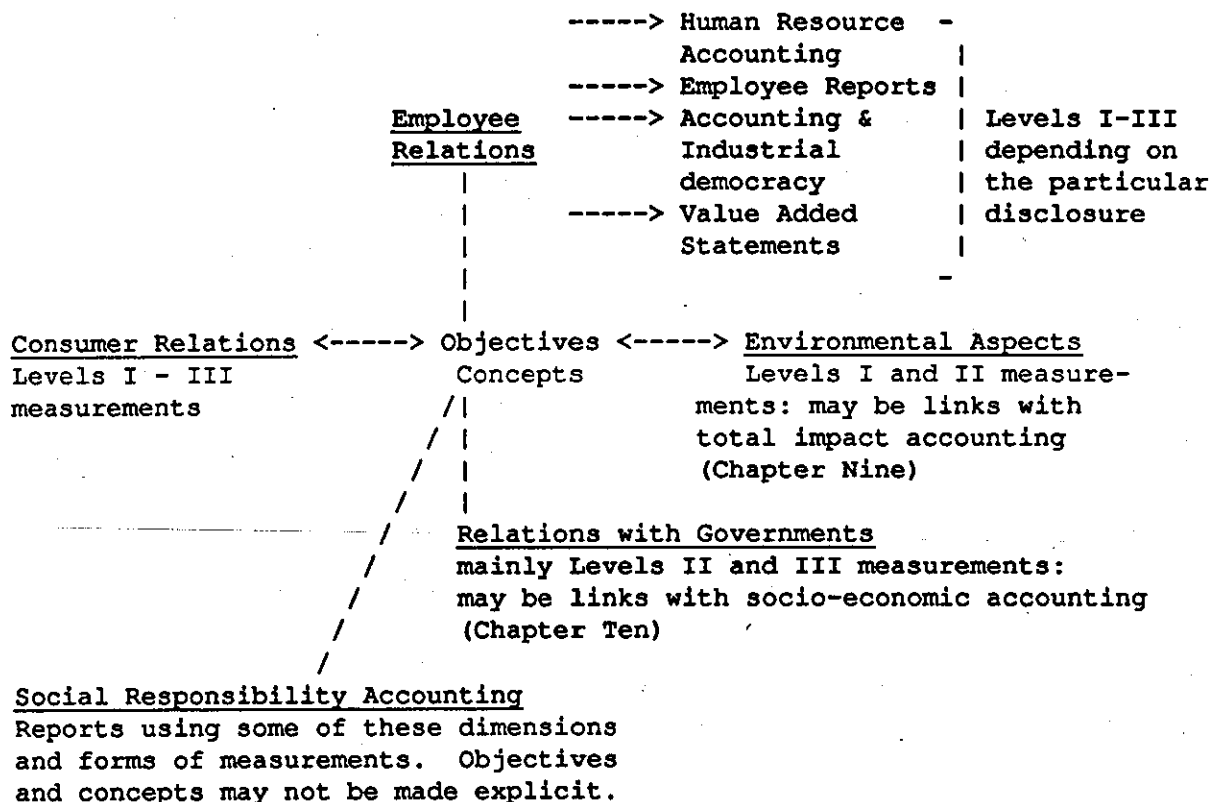


Exhibit 54 uses the four dimensions of social responsibility disclosures suggested by Jackman, at different levels of measurement. The diagram illustrates the various links which may be made into and out of the different dimensions. It also indicates where there may be links with other forms of social accounting measurement and reporting which have not yet been discussed in detail.

However, progress in the area of SRA disclosure is not uniform. Although some aspects, for example employee reports have attained a measure of uniformity and acceptance of content and style, there are still considerable variations in other disclosures. This applies particularly to product and environment related disclosures, and those attempting to record community activity. The more esoteric areas of SRA such as Human Resource Accounting and matters related to industrial democracy have not made much progress at all.

Accounting and matters related to industrial democracy have not made much progress at all.

The chapter concluded with an examination of some of the difficulties involved in analysing SRA disclosures. The first main problem is one of subjectivity. The reports do not lend themselves to consistent analysis by different analysts even where the same instrument is involved. Comparability of reports over time and between different countries of origin is obviously hindered by subjectivity and the lack of a standardised approach. However, any attempt to standardise approaches to SRA disclosures will encounter the second difficulty which is referred to in this chapter, the influence of culture upon accounting in general and forms of social accounting in particular. Recent research has indicated strong societal pressures towards particular forms of accounting and reporting which are likely to prevent widespread conformity or comparability between the products of differing cultural backgrounds.

It seems clear that SRA is an important growth area in accounting disclosure. However, it is likely that some aspects will show more growth than others, developing a stronger literature at the same time. A survey of the social accounting literature shows an overwhelming concern with SRA as the archetypal social accounting. The next chapter considers 'Total Impact Accounting'.

CHAPTER NINE

9.00 TOTAL IMPACT ACCOUNTING (TIA)

9.10 Introduction

The objective of this chapter is to introduce the second category of social accounting in the framework aimed towards a more socially relevant accounting. Total impact accounting is defined as follows:

"The term Total Impact Accounting (TIA) refers to attempts at measuring, in monetary terms, the total cost of running an organisation in its existing form. The total cost of running an organisation may be divided between private and public costs".

Unfortunately, confusion persists with the use of the term 'social accounting', because many writers refer to SRA material as 'social accounting' whilst economists use the term for what is here called TIA. The distinction between the two areas is made clearer in this thesis by the descriptions given in Exhibit 11.

This chapter consists of an introduction, a consideration of the philosophical issues which are generated by proposals to account for externalities, an examination of a number of the better known models for achieving disclosure and reference to the concept of the social audit.

The total cost of running an organisation may be divided between private and public costs. Private costs, also called internal costs, are already recorded and measured by the accounting system, as the individual costs of material, labour and overheads. After accumulation, these costs are used in the preparation of intermediate and final accounts, many of which are published under statutory requirements and form the traditional disclosures to the shareholders. Internal costs are also used in the preparation of product costs and for the valuation of inventory. Public costs, also called external costs or externalities, occur as a result of the existence of an organisation and must be borne by the community as a whole. If the social benefits resulting from the existence of an organisation are greater than the public costs, then there is no net public cost and there may be a public gain. Net social benefits may result from the building of roads, railyards or harbour facilities as part of a new economic development. The

classic examples of externalities leading to public costs, are those of pollution by fumes, smell, noise and waste discharge. Others are plant induced traffic congestion or excessive demands on medical or social services which result from the operation of a particular plant.

The difficulties faced by proponents of total impact accounting are related to the identification, measurement and valuation of externalities prior to their possible disclosure in accounting reports. Although the identification of many potential social costs is not difficult, measurement and valuation will not be readily accomplished. It is possible to see smoke or dust pollution leaving factory premises and to smell gaseous contaminants polluting the atmosphere, but how can a value be attached to the effects of these phenomena? The process of valuation has the two aspects of occurrence and measurable effect both of which are problematic.

The American Accounting Association Committee on Social Costs has suggested that three levels of measurement could be involved in any case of Social Accounting. These levels were discussed in a previous chapter. Level III measurements require that non-financial quantification be converted to a financial estimate of costs and benefits. In the case of pollution, the cost of continued emissions above an acceptable limit may be internalised as a private cost, through fines or even closure, or through damage awards to individuals. The cost to the community will possibly involve damage to buildings, increased maintenance costs and loss of amenities or poor community health. Estimates of the public cost may serve as the basis for fines or damage awards.

Two measurement difficulties which have not been addressed by the Level I-III disclosure hierarchy are time and distance. How much time can be expected to elapse between the event (for example, the sulphur dioxide discharge) and the resulting effect (damage to something or someone)? Although a social cost undoubtedly exists, if discharges which were considered harmless are subsequently found to be cumulative and eventually harmful, it is difficult to see how the organisation could be made to bear the cost. However, once the knowledge is made public, a different set of rules may be applied. Examples which come to mind are expectant mothers and Thalidomide, miners and pneumoconiosis, and the effects of Asbestos on members of the general public. In the area of cumulative pollution, we can

refer to Cadmium poisoning of soil in Japan, and Arsenic levels around plants processing this material.

When considering the physical distance from effluent discharge and the resulting effects, what geographic limits should be placed on the measurement of social costs? It has been asserted that the improved local effects of passing sulphur dioxide into the atmosphere via tall chimneys in the U.K. has resulted in acid rainfall in Scandinavia, and the effects of atmospheric pollution from the U.S. are felt in parts of Canada. The fallout from the Chernobyl nuclear power plant is a prime example of the problems of time and distance which would remain even if there was any intention to compensate losing parties.

How does TIA deal with time and distance problems? One approach would be to look at the costs and benefits of organisations over their entire life and get away from conventional accounting periods and short-term matching principles. It is difficult to do this with changing knowledge and technology and there may still be costs which could not equitably be charged to an organisation, because of new developments and knowledge, although some form of insurance policy might be developed. In respect of distance, the matter is complicated by national boundaries. If an organisation discharges material inside one country, it does not matter whether the effect is felt next door, or at the other end of the land, since only one jurisdiction is involved. However, where international pollution is involved the jurisdiction is likely to be more difficult to ascertain.

The consideration of pollution, its measurement and valuation, is not new. Estes has cited one of the oldest and most famous calculations of social cost, that of the estimate of smoke damage in Pittsburgh.⁴³⁷ This 1913 study produced a cost, which in 1959 terms and if extended to the entire United States, would have been \$11 billion annually. The 1987 cost would be much higher. Taylor⁴³⁸ has referred to the work of the Programmes Analysis Unit in Britain and describes some of the difficulties experienced in determining the social costs of pollution in that country, in particular

⁴³⁷. Estes, R.W., "Accounting for Social Costs", in Estes, R.W., (Ed) Accounting and Society (Melville, Los Angeles, 1973) p.253.

⁴³⁸. Taylor K., "Social Accounting - Whose Responsibility", Management Accounting (November 1975) pp.361-364.

who is responsible for the costs. Beams and Fertig⁴³⁹ have indicated that accountants need to take action to convert social costs in order to protect the environment.

Once the identification of externalities and their effects has been achieved and the measurement systems developed and deployed, it will be possible to turn to evaluation. The evaluation stage requires conversion of the measured outcomes of externalities into a financial quantity for disclosure in either internal or external accounting reports. Because the effects of externalities may be spread over several time periods, aggregation and discounting will be required and consequently a discount rate must be determined for use in this process. The varied nature of externalities will ensure that the procedures required for measurement and evaluation will also be varied. For example, the valuation of an externality such as a pollutant which is of nuisance value will differ from that accorded to one which is likely to damage property. Both will be different from that where a health hazard exists. The discount rate could also vary from one class of externality to another.

Clearly the field of disclosing externalities is technically complex. However, the decision to attempt the identification measurement and valuation is equally difficult and must be considered next.

9.20 The Philosophical Problem

The major difficulty with the valuation of externalities is not in knowing that they exist, or even in their identification and measurement, but in recognising that there is an accounting problem at all. The philosophical nature of the question of measuring and valuing externalities in accounting may be illustrated by reference to the work of Ramanathan and Schreuder and of Benston.

The conceptual framework for social accounting put forward in the 1976 Ramanathan paper⁴⁴⁰ appears to have been designed solely for the private enterprise organisation. It was also noted in chapter seven that the framework is inclusive of both SRA and TIA. Indeed the major impact may

⁴³⁹. Beams, F.A. and Fertig, P.E., "Pollution Control Through Social Cost Conversion", The Journal of Accountancy (November 1971) pp.37-42.

⁴⁴⁰. Ramanathan, op.cit.

well be on the valuation of externalities rather than general SRA disclosures. A later paper by Ramanathan and Schreuder⁴⁴¹ develops further the arguments in favour of the valuation of externalities, in the quest for a more realistic development of private sector costs. As they have commented:

"The ultimate aim of CSAR is not to weaken the corporate and/or market system, as many opponents of its development seem to think, but to strengthen these systems by making them more inclusive".⁴⁴²

They suggest that this would be achieved by using a macro approach. A large proportion of government expenditure, raised through general taxation, is devoted to neutralising the externalities resulting from private sector activities and, therefore, the private sector costs of the firms concerned are currently lower than they should be because of the public costs created through externalities. There is a large difference, in some cases, between enterprise costs and the total impact of the enterprise on society. The payment of corporation tax may offset some of the private costs which are put onto the public purse as externalities, however, the equality of tax payments and clean-up costs (or other public expenditures) would be coincidental.

Ramanathan and Schreuder have argued that a system of linked macro and micro indicators could result in the total cost to society of neutralising externalities (government costs) being allocated to the firms responsible for the externalities in the first place. This policy would have a number of effects. First, general taxation could be lowered as a result of specific recoveries, and the use of specific charges or taxes would force the organisation to internalise costs through the regular accounting system and the cost structure would then be comparable to that of an organisation that did not cause externalities. Second, in some industries there would be a general rise in the cost structure leading to higher prices and reduced demand. Third, the viability of some industries might be reduced

⁴⁴¹. Ramanathan, K.V., and Schreuder, H., "The Case for Social Accounting and Reporting: A Macro-Perspective", a paper presented at the Workshop on Accounting in a Changing Social and Political Environment, Brussels (December 1982).

⁴⁴². *ibid.*, p.15.

and others increased. The weakness in this structure lies in the operational phase, that is, getting macro and micro indicators which may be linked together to provide a framework for specific charges or taxes. This is admitted by the authors:

"Finally, we may point toward one area of agreement between proponents and opponents of CSAR, namely the finding that the current state-of-the-art has not yet moved sufficiently from the phase of initial individual experiments to the stage of operationalisation and testing of more general frameworks. We feel the social indicators approach which integrates micro and macro perspectives is a promising avenue of research to pursue for this purpose, and we shall direct our future research efforts accordingly".⁴⁴³

Underlying the work of Ramanathan and Schreuder is a philosophical position which was classified by Den Uyl (chapter three) as social permission theory, which takes into account a number of theories such as the social contract and perhaps, organisational legitimacy. This philosophical position leads to an acceptance of new types and forms of disclosure and, inevitably, to an evolutionary perspective on accounting as a discipline. Benston has taken a different philosophical position in respect of social accounting, social responsibility issues and the valuation of externalities. Benston⁴⁴⁴ introduced his argument on the issue of to whom is the corporation responsible? The three alternatives suggested are to shareholders, to stakeholders or to society in general. All three sectors are affected by the assumption (explicit or implicit) that corporation managers may misuse shareholders resources. Benston attempts to undermine this assumption by considering four types of limitation; the market for goods and services, the market for finance and for corporate control, the market for managerial services and internal and external monitoring systems.⁴⁴⁵

The limitation on managerial freedom, exercised by the market for goods and services, is provided by an appeal to the free market philosophy. This enables Benston to conclude:

443. *ibid.*, p.29.

444. Benston, G.J., "Accounting and Corporate Accountability", Accounting, Organizations and Society, Vol.7 No.2 (1982) pp.87-105.

445. *ibid.*, p.89.

"Hence, most (if not all) of the expenditure on social responsibility is borne by the shareholders or managers".⁴⁴⁶

and

"The considerable extent to which enterprises change products, merge, and go bankrupt supports the conclusion that producers are severely constrained by consumers' preferences for price and quality".⁴⁴⁷

The belief in the concern for shareholder wealth by managers is maintained in the face of arguments by Williamson⁴⁴⁸ and Marris⁴⁴⁹ that managers are only interested in "satisfactory" rather than maximum profits and shareholder wealth. These arguments are rejected in part because managers earn more from their involvement as shareholders through share option schemes than from their salaries.

The second limitation is that of markets for finance and corporate control, which are believed to be efficient and to penalise inefficient management by charging higher rates of interest. The evidence from takeover research leads Benston to;

"... support the conclusion that there is, in fact, little dysfunctional managerial discretion".⁴⁵⁰

The market for managerial services works to reduce managerial discretion since managers are engaged in a competitive market for their services. Benston uses the results of a study to argue that there is a significant positive relationship between executive changeover and a poor market performance of company stock.⁴⁵¹

446. *ibid.*, p.90.

447. *loc.cit.*

448. Williamson, O.E., The Economics of Discretionary Behaviour, (Prentice Hall, N.J., 1964).

449. Marris, R., The Economic Theory of Managerial Capitalisation (Free Press, New York, 1964).

450. Benston, *op.cit.*, p.91.

451. *ibid.*, p.92.

Finally, management misuse of shareholder funds is prevented by the internal and external monitoring systems. This leads Benston to argue that although some social responsibility disclosures may benefit shareholders, most would not do so:

"The principal implication of the analysis for corporate social responsibility is that if concern for shareholders is the motivating factor behind this accounting, there is no reason to require its inclusion in public reports. To do so would impose costs on shareholders for the benefit of those who contract with it (e.g. employees) or would support the values of some group in society (e.g. advocates of programs that they say are socially responsible) over others (shareholders, customers and employees)."⁴⁵²

Benston next considers externalities which are examined on a net basis (i.e. positive externalities and negative externalities must be offset).

"The cost to society as a whole is the difference between these aggregate costs and benefits".⁴⁵³

This approach may lead to an apparently inflexible mechanistic and possibly immoral view of externalities as indicated in the following passage in relation to pollution costs:

"Thus if all of the area residents are associated with the factory (say as employees or suppliers), the disability from breathing polluted air is a cost of dealing with the factory and will be reflected in the wages or prices for goods paid by the factory owners. Therefore, there is no externality".⁴⁵⁴

Benston concedes that negative externalities such as pollution will not be self-controlled, and by implication regulation may be necessary. He further argued that the measurement of externalities is so difficult that social responsibility reports will not contribute much to the determination

⁴⁵². *ibid.*, p.93.

⁴⁵³. *ibid.*, p.94.

⁴⁵⁴. *ibid.*, p.94.

of these costs. He analyses the contributions of Abt⁴⁵⁵, Estes⁴⁵⁶, and others⁴⁵⁷, before concluding that an ideal system can never be attained.⁴⁵⁸ Lesser systems are then examined based upon indicators and supplementary reports. They are found wanting because;

"... it benefits anyone, including the owners of corporations, to impose negative externalities on non-contracting parties and to report on social matters only when the result is likely to be beneficial to the owners".⁴⁵⁹

Benston concluded that social responsibility accounting (by which he means both the reporting of voluntary non-financial and financial data as well as attempts to value externalities) is not a viable proposition;

"... the analysis presented above concludes that shareholders are likely to be well served by the accounting procedures voluntarily adopted by corporate managers and directors. Similarly, employees, customers, creditors and others who have contractual relationships with corporations are likely to be well served. The remaining area to which external reports of social responsibility might be directed, the imposition of negative externalities on the general public is not likely to be self-regulating. But the inherent problems of measuring externalities places resolution of the problem outside the scope of accounting".⁴⁶⁰

A similar, though shorter paper, presents the same analysis in respect of corporate governance and social responsibility.⁴⁶¹

Benston has concluded that social responsibility accounting (by which he means both the voluntary reporting of non-financial data as well as

455. Abt, C.C., The Social Audit for Management (Amason, New York, 1977).

456. Estes, R., Corporate Social Accounting (John Wiley, New York, 1976).

457. American Institute of Certified Public Accountants, Committee on Social Measurement, The Measurement of Corporate Performance (AICPA, New York, 1977).

458. Benston, op.cit., p.97.

459. ibid., p.98.

460. ibid., p.102.

461. Benston, G.J., "An Analysis of the Role of Accounting Standards for Enhancing Corporate Governance and Social Responsibility", Journal of Accounting and Public Policy (Fall 1982) pp.5-17.

attempts to value externalities) is not a viable proposition. In taking a classical free-market position Benston is ignoring trends towards a greater questioning of organisational legitimacy by the public. Organisational legitimacy and the advantages which management may achieve through social accounting are discussed by Lindblom⁴⁶², Heard and Bolce⁴⁶³, Tinker and Lowe⁴⁶⁴ and Donaldson⁴⁶⁵. This literature was considered as part of the justificatory arguments in chapter three dealing with the relationship between business and society; the social contract. These issues are ignored completely by Benston thus demonstrating that either he is completely unaware of the line of argument or, more likely, that he does not think it worthy of attention. Furthermore, by rejecting organisational attempts at social responsibility, Benston may be encouraging the conditions under which legislation is eventually inevitable, to the ultimate disadvantage of the shareholders whose interests he seeks to protect. The philosophical position underlying this analysis may be identified as the individual agreement theory put forward by Den Uyl.

Schreuder and Ramanathan have provided a critique of Benston which seeks to identify his position as normative and not positive as he has claimed;⁴⁶⁶

"... our comments partly provide an internal critique of Benston's argument pointing towards logical inconsistencies, fallacious arguments and unwarranted conclusions. Other comments, however, challenge the very framework set up by Benston, questioning whether this is the only possible mode of analysis, revealing the normative foundations of this framework

and suggesting that the value premises involved are not the only ones possible or acceptable".⁴⁶⁷

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462. Lindblom, C.K., "The Concept of Organizational Legitimacy and its Implications for Corporate Social Responsibility Disclosure", Working Paper No.7 (Public Interest Section, AAA, Fall 1983).
463. Heard, J.E. and Bolce, W.J., "The Political Significance of Corporate Social Reporting in the United States of America", Accounting, Organizations and Society, Vol.6 No.3 (1981) pp.247-254.
464. Tinker, A.M. and Lowe, E.A., "A Rationale for Corporate Social Reporting: Theory and Evidence from Organisational Research", Journal of Business Finance and Accounting, Vol.7 No.1 (1980) pp.1-15.
465. Donaldson, op.cit.
466. Schreuder, H. and Ramanathan, K.V., "Accounting and Corporate Accountability: An Extended Comment", Accounting, Organizations and Society, Vol.9 No.3/4 (1984) pp.409-415.
467. *ibid.*, p.411.

The authors concluded that Benston's analysis was limited, which is the position taken here. It is argued that it is limited because accounting is a discipline which evolves as society evolves and the basic philosophy of large sections of the population is changing. To account only to shareholders is to ignore many other groups who, because of choice or lack of wealth endowments are not shareholders but are employees, customers, suppliers or members of governmental bodies.

The purpose of presenting the Schreuder and Ramanathan, and Benston views was to establish the contrast, which highlights the difficulties imposed by the philosophical underpinning of arguments about the measurement of externalities. The debate finally emerges as a conflict of value systems which are normative and untestable.

9.30 Issues in the Evaluation of Externalities

This section serves to indicate a number of circumstances where the valuation of externalities might yield interesting results. Consequently one would expect to encounter models dealing with these areas.

9.31 Costs of Pollution

Pollution is a negative externality which may affect the health and enjoyment of individuals as well as the value of private and public property. A secondary effect will be a reduction in the costs of production within the corporation, an improvement in competitive position, more successful marketing and greater sales. All of which will add to the potential for further pollution. The valuation of pollution is a major issue addressed by many TIA models.

9.32 Value of Property

The value of real property, particularly that which is owned by individuals or corporations, may be increased and decreased by external factors. Pollution by noise and odour, an increase in heavy road traffic, or by some perceived disadvantage may result in a loss of property values. Similarly, an action taken by one party may enhance the value of the property of another party. Should some accounting be made for these particular externalities, and if so how? This aspect of externalities does not appear explicitly in the accounting literature and is a suitable topic for further research.

9.33 Costs of Congestion

A negative externality which may be very difficult to deal with is the cost of congestion, particularly of transport channels. The location of commerce and industry may lead to choked roads and railways and increasingly, airways. This problem often requires capital expenditure by a government which may be paid for by the corporation through taxes, but may be financed by other taxpayers. A similar problem exists with the provision of power to industry where peak power loads may necessitate the provision of additional equipment which will be used only infrequently. The problem is 'solved' by the imposition of a fixed charge based on maximum demand at the peak time. However, the charge may not cover the provision of the additional capital equipment.

9.34 Value of Public Improvements

In some cases corporations provide a positive externality by effecting additions to the stock of public goods in the form of roads, railways, harbour facilities, or buildings. These are treated as donations or as part of the set up costs for the enterprise.

These issues, and many others, have to be addressed if externalities are to be valued. Externalities must be included with private costs to determine Total Impact Accounting measures. The position of net positive externalities is often not explored. An assumption is made that in most cases the outcome will be a net negative externality. Clearly there is considerable work to be done in this area.

9.40 Valuation and Disclosure Models

A number of models, designed to facilitate the identification, measurement and valuation of externalities, may be found within the social accounting literature. Several models are considered here in order of their publication.

9.41 Linowes, 1972

One of the earliest attempts to design a model which would account for externalities, and consequently enable the total impact of the organisation to be calculated, was provided by Linowes.⁴⁶⁸ His socio-economic operating statements is produced as Exhibit 55. The operating statement divides the impact of the organisation into three areas; relations with people, relations with the environment and, relations with product. Sub-totals in each area summarise improvements and net them off against what are termed detriments, to give a net figure.

Although the design of the statement appears logical, the content is not consistent with most of the literature dealing with externalities. There is no estimate of cost or benefit to the environment in the future and consequently no discounted future effect. The costs referred to are current actual or opportunity costs and do not relate to the cost of the activities of the enterprise in the public domain. For example, in the section on relations with the environment the "cost of detoxifying waste from the finishing process" is shown as an improvement (this is a private and not a public cost) and one of the detriments is the "estimated costs of installing a purification process to neutralise poisonous liquid being dumped into stream". The latter are not the costs of the externality (the cost to the public) which would be the costs which result from the continued dumping (dead fish, loss of fishing amenities, or reduced value of farm land). This approach does not provide a satisfactory means of valuing or disclosing externalities.

⁴⁶⁸. Linowes, D.F., "An Approach to Socio-Economic Accounting", Conference Board Report (November 1972).

EXHIBIT 55**Socio-Economic Operating Statement****X Corporation**

Socio-economic operating statement for the
year ending December 31 19X1

I Relations with people**A. Improvements**

1. Training program for handicapped workers	\$ 10,000
2. Contribution to educational institution	4,000
3. Extra turnover costs because of minority hiring program	5,000
4. Cost of nursery school for children of employees voluntarily set up	<u>11,000</u>
Total improvements	<u>\$ 30,000</u>

B. Less Detriments

1. Postponed installing new safety devices on cutting machines (cost of the devices)	<u>\$ 14,000</u>
--	------------------

C. Net improvements in people actions for the year	<u>\$ 16,000</u>
--	------------------

II Relations with environment**A. Improvements**

1. Cost of reclaiming and landscaping old dump on company property	\$ 70,000
2. Cost of installing pollution control devices on Plant A smokestacks	4,000
3. Cost of detoxifying waste from finishing process this year	<u>9,000</u>
A. Total improvements	<u>\$ 83,000</u>

B. Less Detriments

1. Cost that would have been incurred to relandscape strip-mining site used this year	\$ 80,000
2. Estimated costs to have installed purification process to neutralize poisonous liquid being dumped into stream	<u>\$100,000</u>
	<u>\$180,000</u>

C. Net deficit in environment actions for the year	<u>\$ 97,000</u>
--	------------------

III Relations with product**A. Improvements**

1. Salary of vice-president while serving on government Product Safety Commission	\$ 25,000
2. Cost of Substituting leadfree paint for previously used poisonous lead paint	9,000
Total improvements	<u>\$ 34,000</u>

B. Less Detriments

1. Safety device recommended by Safety Council but not added to product.	<u>\$ 22,000</u>
--	------------------

C. Net improvements in product actions for the year	<u>\$ 12,000</u>
---	------------------

Total socio-economic deficit for the year	<u>\$ 69,000</u>
---	------------------

Add Net cumulative socio-economic improvements as of January 1, 19x1	<u>\$249,000</u>
--	------------------

Grand total net socio-economic actions to December 31, 19X1	<u>\$180,000</u>
---	------------------

Source: Linowes, op.cit., p.60.

9.42 Dilley and Weygandt, 1973

In a frequently quoted study, Dilley and Weygandt⁴⁶⁹ presented a statement of funds flow for socially relevant activities in respect of a power utility company. Their statement is reproduced as Exhibit 56. The majority of the items listed have a potential or actual effect on the environment, however, in all cases the costs are actual and current. future costs to the public are not calculated and benefits are not evaluated excepting in terms of current costs. For example, the benefits of creating less unsightly plant and equipment in a variety of ways is measured in terms of current costs, which does not measure the future benefit of the expenditure in reducing an externality (in this case unattractive places to work in or pass by). A more complex example is the increased cost of using low-Sulphur coal as feedstock for the plants. This cost is correctly stated as incremental and yet the incremental benefit, in terms of reduced damage to the environment, is not measured. Indeed the existing damage is not valued in the manner suggested in some of the literature on externalities.

The model put forward by Dilley and Weygandt is still deficient, although perhaps of greater utility as a means of disclosure than that used by Linowes.

⁴⁶⁹. Dilley, S.C. and Weygandt, J.J., "Measuring Social Responsibility - An Empirical Cost", Journal of Accountancy (September 1973) pp.62-70.

EXHIBIT 56**Utility Company****Statement of funds flow for socially relevant activities 19x1****Environmental**

Installation of electrostatic precipitators (Note 1)	\$ 26,000	
Construction of power plants (Note 2)	2,089,000	
Construction of transmission lines (Note 3)	35,000	
Electrical substation beautification (Note 4)	142,000	
Incremental cost of low-sulfur coal (Note 5)	33,670	
Conversion of service vehicles to use of propane gas (Note 6)	3,700	
Incremental cost of underground electrical installations (Note 7)	737,000	
Incremental cost of silent jackhammers (Note 8)	100	
Environmental research		
Thermal \$17,000		
Nuclear 1,955		
Other 38,575		
Subtotal	57,530	
Total environmental funds flow		\$3,124,000

Other benefits

Charitable contributions	26,940	
Employee educational and recreational expenditure (Note 9)	6,000	
Total other benefits		32,940
Total 1971 funds flow for socially relevant activities		\$3,156,940
As a percentage of 1971 operating revenues		7.9%
As a percentage of 1971 advertising expenses	8,500%	

Notes to funds statement

1. The company will complete installation of two electrostatic precipitators in 1973. Costs in 1971 totaled \$26,000.
2. The company is building power plants which will begin operation in the middle to late 1970's. Incremental cash costs of environmental controls installed in these plants during 1971 totaled \$2,089,000.
3. The company is constructing a high-voltage transmission line from another community to the company's service area. Environmental cash costs resulting from wider spacing of line towers totaled \$35,000 in 1971.
4. The company constructed a new substation in 1971 with an enclosed structure rather than open exposure of the electric transformers. The cost of this enclosure along with landscaping of existing substations totaled \$142,000 in 1971.
5. The company used approximately 150,000 tons of coal during 1971 for electric power generation. Low-sulfur content coal comprised 8.6 percent of this coal consumption with the remaining 91.4 percent being coal of a higher sulfur content. The low-sulfur coal cost approximately \$2.61/ton more than the high-sulfur coal.

6. Motor vehicles fueled with propane gas contribute substantially less air pollutants to the atmosphere than gasoline-fueled vehicles. During 1971 the company converted 9 more of its fleet of 115 vehicles to use of propane gas. The cost of this conversion was \$3,700. Seventeen company vehicles are now operated on propane gas.
7. Underground installation of electric transmission lines has increased since environmental attention has focussed on the aesthetic pollution of poles and wires. During 1971 the company installed underground electric transmission lines, which cost \$737,000 more than putting the same lines above ground.
8. Jackhammers used by the company are, with one exception, of the normal, noise-polluting type. One jackhammer purchased during 1971 with noise controls costs \$100 more than the regular jackhammers.
9. The company reimburses employees for educational expenditures and provides recreational opportunities such as the annual company picnic. Such expenditures amounted to approximately \$6,000 in 1971.

Source: Dilley and Weygandt, op.cit.

9.43 Ullman, 1976

Ullman ⁴⁷⁰ has put forward a model for the disclosure of environmental impact called the Corporate Environmental Accounting System (CEAS) which employed non-monetary measurement. It has been described as "partial non-monetary and output oriented." A complex calculation is required to develop the input-output relationship which is based on the Equivalent Factor or EC. This is then used in conjunction with physical measures of environmentally relevant inputs and outputs to arrive at CEAS units. The units are used to prepare a CEAS-balance sheet consisting of three sections:

- "(1) Environmental effects produced by the production process:
Materials and energy used, pollution and waste generated and dissipated, plus:
- (2) Impacts due to the use of products sold to customers not subject to CEAS, minus:
- (3) Materials, respectively material content of products sold to customers subject to CEAS."⁴⁷¹

⁴⁷⁰. Ullman, A.A., "The Corporate Environmental Accounting System: A Management Tool for Fighting Environmental Degradation", Accounting, Organizations and Society, Vol.1 No.1 (1976) pp.71-79.

⁴⁷¹. ibid., p.76.

The CEAS model includes a wide range of impacts but does not necessarily measure, even indirectly, the cost to third parties of discharging gaseous matter (his example). Furthermore, the literature on externalities does not normally include the impact of products sold to customers as a cost of operation of the initial producer.

9.44 Estes, 1976,1977

Estes⁴⁷² attempted to systematically model the impact of the organisation on the environment from the perspective of the environment. Exhibit 57 presents a social impact statement prepared on this basis and divided between social benefits and social costs. The majority of entries are in present cash flows and set off the payments made to society against the payments received from society. However, Estes places a number of externalities amongst the costs, consisting of a variety of forms of environmental damage. The model put forward by Estes incorporated the cost of environmental damage as determined by surveys, analysis, avoidance costs, restoration costs and surrogate valuation and shadow pricing.⁴⁷³ All of which may present measurement problems. The valuation (conversion of physical measurements to financial entries) will necessitate an examination of discount rates, with the two main alternatives being a social time preference rate or the use of a social opportunity cost rate.

⁴⁷². Estes, R.W., Corporate Social Accounting (Wiley, 1976).

⁴⁷³. Gray, Owen and Maunders, op.cit., p.123.

EXHIBIT 57The Progressive CompanySocial impact statement for the year ended December 31, 19x1**Social Benefits**

Products and services provided		\$xxx	
Payments to other elements of society			
Employment provided (salaries and wages)	\$xxx		
Payments for goods and other services	xxx		
Taxes paid	xxx		
Contributions	xxx		
Dividends and interest paid	xxx		
Loans and other payments	xxx		
		xxx	
Additional direct employee benefits		xxx	
Staff, equipment, and facility services donated	xxx		
Environmental improvements		xxx	
Other benefits		xxx	
Total social benefits			\$xxx

Social Costs

Goods and materials acquired		\$xxx	
Buildings and equipment purchased		xxx	
Labour and services used		xxx	
Discrimination			
In hiring (external)	\$xxx		
In placement and promotion (internal)	xxx		
		xxx	
Work-related injuries and illness		xxx	
Public services and facilities used		xxx	
Other resources used		xxx	
Environmental damage		xxx	
Terrain damage	\$xxx		
Air pollution	xxx		
Water pollution	xxx		
Noise pollution	xxx		
Solid waste	xxx		
Visual and aesthetic pollution	xxx		
Other environmental damage	xxx		
		xxx	
Payments from other elements of society			
Payments for goods and services provided	\$xxx		
Additional capital investment	xxx		
Loans	xxx		
Other payments received	xxx		
		xxx	
Other costs		xxx	
Total social costs			xxx
Social surplus (deficit) for the year			\$xxx
Accumulated surplus (deficit) December 31, 19x0		xxx	
Accumulated surplus (deficit) December 31, 19x1		\$xxx	

Source: Estes, op.cit., p.96.

In a later paper Estes⁴⁷⁴ sub-divides the social impact statement between a number of constituencies, expressing social costs and benefits for each constituency. This development is presented as Exhibit 58. Although intended as a refinement the resulting statement is rather complicated.

The overall approach taken by Estes in Exhibit 58 is similar to the concept of TIA developed by the author, however, TIA is intended to be taken from the organisational perspective in the conventional manner and not from that of the environment.

EXHIBIT 58

XYZ Corporation - Social Impact Statement for the Year Ended December 31, 1980 (all amounts in \$ millions)

	Customers	Employees	Shareholders	Suppliers	Government +	Contiguous Community	Society at large	Total Social Impact
Social Benefits								
Products and services provided	\$1.80	\$0.10	\$0.10	\$ -	\$ -	\$ -	\$ -	\$2.00
Cash payments made (purchases, taxes, salaries, dividends, etc.)	-	0.40	0.10	0.60	0.15	0.05	0.10	1.40
Additional employee benefits	-	0.10	-	-	-	-	-	0.10
Environmental improvements	-	0.02	-	-	-	0.03	0.10	0.15
Staff services, facilities, and ... equipment services donated	0.01	0.01	-	-	0.01	0.02	-	0.05
Other social benefits	-	-	-	-	-	-	0.20	0.20
Total Benefits	\$1.81	\$0.63	\$0.20	\$0.60	\$0.60	\$0.60	\$0.40	\$3.90
Social Costs								
Human services used	\$ -	\$0.30	\$ -	\$0.04	\$ -	\$ -	\$ -	\$0.34
Materials acquired	-	-	-	0.30	-	-	-	0.30
Structures and machinery acquired .	-	-	-	0.20	-	-	-	0.20
Discrimination in hiring, placement, and purchasing	-	0.02	-	0.01	-	0.03	-	0.06
Cash payments received	1.60	0.09	0.14	-	0.01	-	-	1.84
Environmental damage (air, water, noise, aesthetic pollution; solid waste; terrain damage)	-	0.10	-	-	-	0.15	0.05	0.30
Public services and facilities used	-	-	-	-	0.25	-	-	0.25
Industrial injuries and illness ...	-	0.10	-	-	-	0.02	-	0.10
Corporate crime (price-fixing, tax fraud, bribery, etc.)	0.05	-	-	0.01	0.02	-	0.02	0.20
Other social costs	-	-	-	-	-	-	0.20	0.20
Total Costs	\$1.65	\$0.61	\$0.14	\$0.56	\$0.28	\$0.20	\$0.27	\$3.71
SOCIAL SURPLUS (DEFICIT)	\$0.16	\$0.02	\$0.06	\$0.04	(\$0.12)	\$0.10	\$0.13	\$0.19

+ Separate columns could be provided for different levels of government - federal, state, and municipal.

⁴⁷⁴. Estes, R.W., "The Corporate Social Accounting Model: An Information System for Evaluating the Impact of Corporations on Growth, Resource Use, and Specific Constituent Groups within Society", in L.A. Gordon (Ed) Accounting and Corporate Social Responsibility, (Proceedings of a Symposium, University of Kansas, 1977).

9.45 Dierkes and Preston, 1977

Dierkes and Preston⁴⁷⁵ reviewed a number of attempts to deal with the problems of accounting for the physical environment. A number of specific proposals were included, for example that of the Council on Economic Priorities issued in 1975, and the American Accounting Association proposal that social costs be accounted for in terms of the Levels I II & III hierarchy, both of which are cited with approval. The authors noted that any proposal for an accounting for environmental impacts needs to have a systematic framework but not one which aims at bringing all events to a common valuation:

"The framework outlined here does not suggest the use of a unique performance measurement unit and certainly not a monetary measurement unit for all areas of environmental impact. On the contrary, it uses a wide variety of measures appropriately developed for the various specific impact areas."⁴⁷⁶

Dierkes and Preston put forward a model based on inputs and outputs, which assumed that the company has a formal policy statement requiring information about the environmental impact of decision making. The model is illustrated in Exhibit 59. Extensive use is made of Levels I and II in the AAA hierarchy with lesser reliance upon Level III. To this extent the model avoids the issues which Estes was prepared to address, at least in outline.

⁴⁷⁵. Dierkes, M. and Preston, L.E., "Corporate Social Accounting Reporting for the Physical Environment: A Critical Review and Implementation Proposal", Accounting, Organizations and Society, Vol.2 No.1 (1977) pp.3-22. (original emphasis).

⁴⁷⁶. *ibid.*, p.14.

EXHIBIT 59
Environment

Factor	Input (Commitment)			Output (Performance)		
	Description	Measure	Further information	Description	Measure	Further information
Energy	Research and development Savings measures Policy, Goals	D,No,\$ D,\$ D,No, (\$ or %)		Consumption-total oil gas coal other Re-use waste heat	\$\$ per sales \$ per unit output \$,% of total consumption	
Air pollution	Policy and goals	D,No		Noise level (nearest house)	dB A	Comparison with Standards
Water pollution	Research and development (by pollutant or waste).	D,No		Air pollution by pollutant	W,W/P	
Solid waste		\$		Water pollution by pollutant	W	
Noise	Control equipment	\$.D		Water charges	E.o.D.	
	Recycling equipment	% of total investment % increase in production cost		Solid/Semi-solid dumped	\$,W	
				Solid/Semi-solid sold	\$,W	
				New by-products	D,S,\$	
				Complaints	No	
				Lawsuits	No,\$	
Despoliation of landscape	Policy and goals Rehabilitation (landscaping) Beautification	D,No D,\$ D,\$	% production costs	Complaints	No	
		size area despoiled		Lawsuits	No,\$	
		size area reclaimed				
Raw materials*	Policy and goals	D,No		Type	W,\$,\$	
				Waste	W,\$,\$	
				Use of recycled materials	W,\$,\$	
	Research and development: substitution recycling	D,No				
Packaging	Research and development	\$		Returnable	W,\$	
		D,No,\$		Waste	W,\$	
Transport	Modal policy	D		Energy use	\$.W	
				Pollution	(as above)	

* Consideration may also be given to the use of scarce non-renewable resources, and the use of renewable but long-term resources, e.g. trees.

Legend

No.: Absolute quality. Could mean both staff and beneficiaries.
 \$: Cost in applicable currency.
 % : Proportion or percentage in terms of applicable denominator.
 D : Description of policy, measure, goal, activity.
 Fr : Frequency of activity
 T : Length of time applicable to activity
 W : Weight.
 S : Sales.
 P : Product.
 A : Assessment

Source: Dierkes and Preston, op.cit., p.15.

The social cost figures obtained may be used for three purposes (1) for government use - is the community willing to tax itself sufficiently to correct the problem? (2) as a basis for negotiation between the parties, and;

"(3) The "social costs" may be expressed as "effluent charges" levied against the source of the pollution. These latter - which , in effect, result in the "internalization" of previously "external" cost impacts-then enter the managerial calculations of an individual firm just like any other costs of doing business."⁴⁷⁷

This is the approach taken by the author in the concept of TIA.

9.46 Eichhorn, 1979

In contrast to the detailed models put forward by Estes, and Dierkes and Preston, Eichhorn⁴⁷⁸ has offered a societal profit and loss account which is theoretical and conceptual and incapable of implementation. The outline is reproduced as Exhibit 60. Schreuder has noted that models of this type are useful as a frame of reference against which less ambitious models may be evaluated.⁴⁷⁹

⁴⁷⁷. *ibid.*, p.20.

⁴⁷⁸. Eichhorn, "Social Profit and Loss Account" cited in Schreuder, H., "Corporate Social Reporting in the Federal Republic of Germany", Accounting, Organizations and Society, Vol.4 No.1/2 (1979) p.110.

⁴⁷⁹. *ibid.*, p.111.

EXHIBIT 60
Societal profit and loss account

Erwerbswirtschaftliche Erfolgsrechnung		Gesellschaftsbezogene Erfolgsrechnung	
Costs	Revenues	Social costs	Social benefits
Profit		Net social benefits	

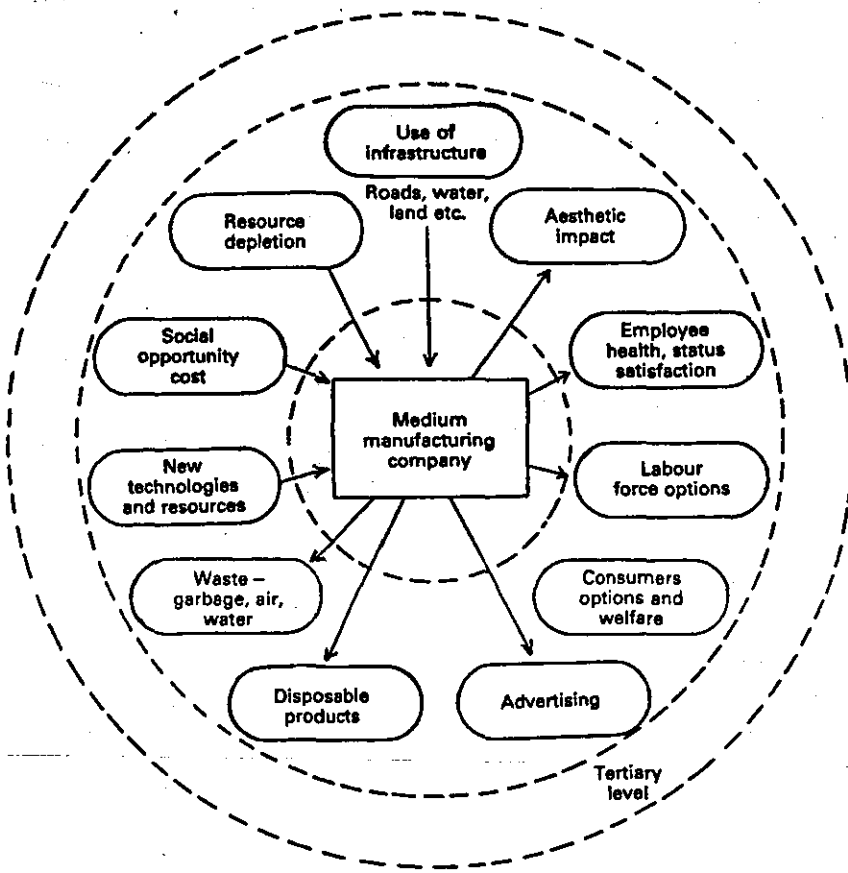
Gesellschaftsbezogene
Erfolgsrechnung

Social costs	Social benefits
I Producer's surplus for:	I Consumers' surplus for:
1. labour performances	1. product A
2. fixed assets	2. product B
3. materials	3. product C
4. capital	4. product D
5. entrepreneurial performances	
6. bought-in performances	
II Value of negative external effects on:	II Value of positive external effects on:
1. employees	1. employees
2. population	2. population
3. companies	3. companies
4. public entities	4. public entities
III Net social benefits	III Net social costs

Source: Schreuder, op.cit., p.110.

9.47 Gray, Owen and Maunders, 1986

Gray, Owen and Maunders have illustrated the involvement of the organisation with its environment at three levels. The first, corresponding to conventional accounting, or possibly conventional accounting and SRA, was used in chapter seven. The second illustration is shown as Exhibit 61 and includes a range of environmental interactions, some of which are similar to, or actually are, externalities. It should be noted that this model is conceptual and does not provide any details of the mechanism which would provide for the measurement and valuation of identifiable events.

EXHIBIT 61**Conceptualisation of the relationship of the organisation with its environment**

Source: Gray, Owen and Maunders, op.cit., p.78.

9.48 Models of Externalities: A Summary

The seven models illustrated and reviewed in this section cover the main types available for consideration. Linowes, and Dilley and Weygandt use the historical cost structure to indicate the costs and benefits of preventing externalities and the costs associated with non-prevention. Ullman deals exclusively with non-financial measurement on a macro scale. Estes and Dierkes and Preston offer models which not only use financial measurement for current items, but impute the costs of unprevented externalities. However, the approach taken by Estes has been criticised as providing an ideal position which cannot be realised where market based valuations do not exist. The Dierkes and Preston model is designed to accept both financial and non-financial data. The last two approaches by Eichhorn and Gray, Owen and Maunders revert to conceptual models, leaving out any procedures by which the measurement and valuation may be accomplished.

The TIA disclosures envisaged by this thesis involve the calculation of externalities and then their internalisation into the cost structure of the enterprise. In terms of the approaches discussed above, a combination of Estes and Dierkes and Preston would be the closest. It is clear that additional research is required in this area to fulfil the potential which TIA holds for those theorists with a concern for environmental matters.

9.50 Social Audit

9.51 Introduction

Modern financial accounting practice associates the preparation and disclosure activities with the checking and attesting function in the form of auditing. Financial or external auditing has, been an important part of accounting for over one hundred years, and later variants include internal and operational auditing in the private sector, and value for money auditing in the public sector.

Social accounting activities have induced a demand in the literature for social audits, although the term is often used for different activities. This section considers the social audit in the context of SRA and TIA; value for money audits are dealt within chapter ten. The discussion of social audits can be divided between an internal monitoring of social responsibility accounting disclosures, an external audit of SRA and TIA disclosures on behalf of the producers, and an external audit of the performance of the corporation from the perspective of society as a whole.

9.52 Internal Monitoring of SRA disclosures

Two examples of conceptual SRA models discussed in chapter seven, were concerned with providing social information to aid managerial decision making^{480, 481}. These models included a feedback provision whereby the effect of the decisions on the environment was monitored and fed back to aid further decision making. This activity is a form of social audit although admittedly outside of the normal usage of that term.

9.53 External Audit of SRA and TIA for Producers

The idea being explored here is an audit of SRA and TIA disclosures by appropriately qualified personnel, with an audit report being passed to the

⁴⁸⁰. Burke, Exhibits 15-17.

⁴⁸¹. Brooks, Exhibits 21-23.

management or the shareholders of the organisation. There are relatively few examples of this procedure being undertaken, perhaps because SRA disclosures are not produced in sufficient quantity to make an independent audit worthwhile, and TIA has an underdeveloped methodology about which there might be insufficient agreement to permit attestation.

Brooks⁴⁸² has documented the use of a particular technique (an attitude survey approach) for use with a social audit. Although described as a survey of internal personnel, the subject was the external relations of the company and, consequently, the contribution fits into this section.

Sellers⁴⁸³ provided a conceptual model for developing a social audit. The model consisted of four distinct interest groups; the entity, the auditor, the standard setting bodies, and the constituent (or user) groups. One interesting point is that despite the stage of development of SRA, Sellers was already referring to the standard setting bodies in a manner that indicates his belief that newer forms of disclosure will follow the same development pattern as has occurred previously.

Filios⁴⁸⁴ used the term social process auditing in referring to the audit of corporate activities in the social area. The relationship between the organisation and the government is not to be neglected since:

"The aims of an accounting system for social goals are:

- Determination of the specific goals and objectives to be sought through government intervention and the specific actions to be taken in specific programmes and activities.
- Evaluation of social alternatives and determination of the effectiveness and efficiency of efforts expended to maintain or improve social conditions."⁴⁸⁵

⁴⁸². Brooks, L.J., "An Attitude Survey Approach to the Social Audit: The Southam Press Experience", Accounting, Organizations and Society, Vol.5 No.3 (1980) pp.341-355.

⁴⁸³. Sellers, J.H., "A Conceptual Model for the Social Audit", Singapore Accountant (June 1981) pp.24-29.

⁴⁸⁴. Filios, V.P., "Social Process Auditing: A Survey and Some Suggestions", Journal of Business Ethics, Vol.4 (1985) pp.477-485.

⁴⁸⁵. ibid., p.482.

Gray, Owen and Maunders⁴⁸⁶ give an example of a corporation-inspired audit of SRA disclosures by Atlantic Richfield, which they describe as a rare event.

9.54 External Audit of Corporation - Societal Perspective

Gray, Owen and Maunders⁴⁸⁷ have examined the issue of social audit in some detail. They conclude that very few organisations have an external audit of their SRA or TIA disclosures, and that most social audits are undertaken by organisations with consumer or labour groups as their main constituencies. As examples they refer to the work in the U.K. of Social Audit Limited, Counter Information Services, the work of Local Authorities, and finally the work of the government in monitoring social performance.

Social Audit Limited provides educational material on social audits and has in the past provided detailed reports. The general view appears to be that the reports are searching but not deliberately anti-business. Counter Information Services provides anti-reports which are labour-oriented and ideologically informed by Marxism and critical theory. In the U.K., a number of local authorities have been concerned by the closure of factories in their administrative areas, and have attempted to delay or avoid these changes. Social audits, in this context, are concerned with the costs of shutting plants leading to a loss of rating income, unemployment and social problems and the costs to employees compared to the savings and benefits to the organisation.^{488, 489}

Government monitoring of social performance is carried out in many fields including race relations, sexual discrimination, air pollution, water pollution, health and safety at work, protection of consumers, rights of employees, the implementation of mental health legislation, and public protection (police).⁴⁹⁰ However, government departments frequently attempt to mediate between different groups and do not want to provide wide-ranging

⁴⁸⁶. Gray, Owen and Maunders, op.cit., p.67.

⁴⁸⁷. *ibid.*, Chapter 7.

⁴⁸⁸. Owen, D.L. and Harte, G.F., "Reporting on Corporate Accountability to the Workforce", The Accountants' Magazine (May 1984) pp.184-187.

⁴⁸⁹. Harte, G.F. and Owen, D.L., "Fighting De-Industrialisation - The Role of Local Government Social Audits", Accounting, Organizations and Society (Forthcoming).

⁴⁹⁰. Gray, Owen and Maunders, op.cit., p.152.

information about their own activities. It is clear, however, that one method of enforcing widespread social audits is via legislation in a similar manner to the current statutory audit.

9.55 Social Audit - a conclusion

It may be concluded that very little audit of SRA and TIA disclosures takes place at the behest of the corporation, on behalf of management or shareholders. However, management may be provided with internal reports to monitor socially sensitive activities such as effluent discharge.

The social audits which are normally encountered are those produced by outside parties of consumerists or these looking to criticise the organisation from a radical position. There is little momentum to develop social audits at present although some writers imply that government needs to be involved.

9.60 Chapter Summary

This chapter has considered the development and implementation of TIA. There are definite philosophical difficulties involved in the measurement and valuation of externalities. Many accountants and managers would experience grave doubts about the process of charging back to the entity costs which have 'escaped' into the public arena and may be co-mingled with other similar costs. The same difficulties are not so apparent in the reporting of SRA. However, the considerable difficulties outlined here may provide a spur to the development of measurement and disclosure procedures for TIA. Any detailed examination of the Total Impact of an organisation must take into account the public benefit of providing employment. In an extreme case pollution costs imposed on the firm may lead to its closure and consequent loss of employment. From the difficulties detailed above, the TIA process needs further development before it could become part of a general evaluation of organisational performance. The conventional accounting system within the organisation will not recognise externalities or public costs, unless they are converted into private costs, by means of fines or charges for the release or discharge of noxious material. Of course, such a charge does not remove the nuisance. However, given a reasonably efficient market, the increased cost of production should help bring about either a reduction in sales (and hence output) as a result of a rise in price, or draw the attention of management to a worthwhile investment in efficient pollution abatement equipment.

In view of the difficulty of measuring the social cost of externalities in monetary terms, it would appear that the best line of approach, at the present time, is via Levels I and II of the AAA framework. That is, recognising the sources of possible externalities and measuring them in non-financial terms. This information, if publicly available, would enable the organisation itself, or the community via the government, to decide whether a penalty or charge should be imposed. This process forces recognition of the cost as a private cost, and enables accounting systems and management decision-making to function in the usual way. To attempt to measure the cost of externalities after the event, whilst still allowing the discharge (or other action) to take place seems rather shortsighted. Equally, to make an ex ante valuation of the externalities over the total life of the programme or project, would seem to be very difficult at this stage. To make an ex post valuation might be easier, in terms of having more information available, but the firm will have distributed or reinvested the "excess profits" and be unable to pay the fine when assessed at a later date.

The ultimate aim of TIA is to evaluate private organisational activities in terms of public cost. To do so, TIA must identify actions which are likely to produce social costs or externalities and then obtain both financial and non-financial measures of these externalities. These are then converted into financial measurements. There are many parallels between TIA and Cost Benefit Analysis (CBA) which is used in the public sector and discussed in the next chapter. Eventually, the value of some form of TIA may lie in justifying the continued operation of a plant or process. Continued government intervention in the market place may result in private organisations taking the lead in using TIA to justify their operations. However, it must be recognised that the degree to which an economy conforms to a free market model will have a major effect on the development of TIA. At the present time the valuation of externalities in accounting could be best described as having a very low priority with most organisations.

An examination of the models provided by the literature, shows that in many instances externalities are not valued at the discounted value of future costs, but at the current historical cost. For example, the cost of environmental damage is valued at the amount which was not expended to stop

the discharge and ignores the actual cost of damage to the environment of the discharges themselves.

Social audit was discussed in this chapter in order that disclosures under both SRA and TIA might be included. Very little evidence exists of systematic social audits on a large scale, excepting in the area of radical critiques of the activities of certain organisations. However, because this form is not sympathetic towards the continued existence of the current economic system it cannot be considered as part of any evolutionary strategy leading towards a more socially relevant accounting.

The next chapter extends the examination of socially relevant accounting to the public sector, by the use of socio-economic accounting.

CHAPTER TEN

10.00 SOCIO-ECONOMIC ACCOUNTING (SEA)

10.10 Introduction

Socio-economic accounting (SEA) is concerned with a micro approach to the problems of project selection, operation, control and evaluation in the public sector. The term socio-economic accounting has been defined by Linowes as follows:

"Socio-Economic Accounting is intended here to mean the application of accounting in the field of social sciences. These include sociology, political science and economics".⁴⁹¹

Although Linowes was using the term within the private sector the definition is more appropriate for use within the public sector and has been adopted for this purpose.

This chapter establishes more clearly what is meant by SEA, in order to put it into context with other measures of public activities, and to provide some idea of appropriate evaluation models.

In order to place SEA (a micro model) in context, we shall first examine cost benefit analysis (CBA), planned programmed budgeting systems (PPBS) and zero based budgeting (ZBB) because these models have a longer established literature, and CBA has been widely used as a planning and decision making tool for the selection of public projects. CBA, PPBS and ZBB are alternative models for use in the public sector, however, it will be seen that they are, to a large extent inadequate.

10.20 Cost Benefit Analysis

CBA attempts to evaluate entire projects using the Level III monetary quantification of costs and benefits relating to a specific project. The process has been used for a number of years, and government agencies justify specific projects on the basis of an analysis, which is often similar to capital budgeting in industry. One major difference lies in the

⁴⁹¹. Linowes, D.F., "Socio-Economic Accounting", The Journal of Accountancy (November 1968) pp.37-42.

discount rate used to bring future costs and benefits to present values. In commercial evaluations a discount rate related to the cost of capital (thereby incorporating a risk factor) is most commonly used, whereas, in publicly funded activities, the rate may be a much lower social time preference rate or social opportunity cost rate. This is because commercial and community time horizons and risk factors are alleged to be different.

Prest and Turvey sum up the process of CBA very well:

"Cost Benefit Analysis is a practical way of assessing the desirability of projects, where it is important to take a long view (in the sense of looking at repercussions in the further, as well as the near future) and a wide view (in the sense of allowing for side effects of many kinds on many persons, industries, regions, etc), i.e. it implies the enumeration and evaluation of all the relevant costs and benefits. This involves drawing on a variety of traditional sections of economic study - welfare economics, public finance, resource economics - and trying to weld these components into a coherent whole".⁴⁹²

The importance of CBA to this part of the thesis is that where a project is accepted after CBA it will be easier to evaluate the actual performance, by socio-economic accounting or related techniques, because the cost and benefit data will be on record. Many of the benefits will be of a non-financial nature which are difficult to measure, but will be identified by CBA. For example, if changes are made to an educational programme, as a result of an analysis of objectives, costs and benefits, the costs may be expressed in financial terms, but the benefits may be given in terms of greater teaching effectiveness, or a lower dropout rate for students. The articulation of an objective for the programme will aid subsequent measurement and in some cases the routine nature of the post-operative analysis may act to prevent less viable proposals from being put forward in the future.

⁴⁹². Prest, A.R. and Turvey, R., "Cost-Benefit Analysis: A Survey", The Economic Journal (December 1965) p.682.

The very detailed investigation of social costs in relation to the siting of the third London airport (The Roskill Report) demonstrated some of the difficulties encountered with CBA. These difficulties may be illustrated by reference to three areas; noise, travelling time, and the value of ancient buildings. In attempting to calculate the cost of noise as a social nuisance the estimate was finally;

"... based on the maximum loss that the home-owner in the noisier area is able and willing to bear in order to move out of the area".⁴⁹³

Clearly this is a compromise arrangement or assessment, since different home-owners will react differently to the loss. Furthermore, potential losses as surveyed by researchers, and actual losses experienced when the property is sold, are not felt in the same way and it is difficult to determine the actual "zones of noise nuisance".⁴⁹⁴

The valuation of travelling time is also a most interesting and controversial area of social measurement. In the third London airport investigation, consideration was given to the distance which aircraft had to fly and the passengers had to travel on the ground. If a site were further from central London, then it was argued that passengers were inconvenienced by the need to travel onwards from the airport to their destination. The cost of the travel was both explicit (fares paid) but also implicit or imputed (less work or leisure time). The crux of the assessment of this imputed cost was; what is the value of the time taken by a passenger in making the journey, from central London to the site of the proposed airport and back? The Roskill Commission did not actually carry out an examination of travelling costs for air passengers, but based its calculations upon other studies which had shown a figure of 25% of income as the average value for travelling time. This figure was incorporated into a model which used an average figure for air passenger income, and an estimated increase in business and non-business incomes in real terms over a long period. An adjustment was made for the value of time for accompanying and assisting individuals. The cost of travel for business

⁴⁹³. Estes, R.W., "Accounting for Social Costs", in Estes, R.W., (Ed), Accounting and Society (Melville, Los Angeles, 1973) p.254.

⁴⁹⁴. Mishan, E.J., "What is Wrong with Roskill?" in Layard, R., (Ed), Cost Benefit Analysis (Penguin, London, 1972) p.465.

passengers was calculated as income plus 50% for employers' overhead and divided by a 40 hour week to give the cost per hour. There has been considerable criticism of the approach taken.

Dasgupta and Pearce concluded that:

"... research into the value of business and leisure time is not sufficient to support the use of precise figures in a Cost Benefit Analysis relating to air travel".⁴⁹⁵

Mishan noted that the study values business time at ten times that of leisure time, and that the correct measure of business cost is the opportunity cost to the employer. If the employee has to travel in his/her leisure time, then the opportunity cost to the employer is nil and this should be used in the CBA calculation.⁴⁹⁶

The difficulty of assigning values to existing capital goods, which might be altered or removed as a result of present and future developments, such as the building of an airport runway, is dealt with by Churchman.⁴⁹⁷ The valuation of an historical structure might vary between an extant fire insurance valuation as the lower bound and the present value of an investment made many hundreds of years earlier compounded at a realistic rate. The present value of the earlier investment forms the upper bound, with a great deal of room for other valuations in between these two outside figures.

CBA can produce problematic decisions because of the combination of present and future estimates of costs and benefits, the range of possible discount rates, and a need to force non-monetary measurements into the monetary form in order that cash flows may be discounted. There is always a possibility that cash flows and discount rates may be arranged to obtain the result which is desired on grounds of political expediency. Although CBA may aid the decision process, it does not monitor or audit the project once a decision to proceed has been made.

⁴⁹⁵. Dasgupta, A. and Pearce, D.W., Cost Benefit Analysis: Theory and Practice (MacMillan, London, 1972) p.230.

⁴⁹⁶. Mishan, op.cit., pp.457-458.

⁴⁹⁷. Churchman, C.W., "On the Facility, Felicity and Morality of Measuring Social Change", The Accounting Review (January 1971) pp.30-35.

The audit of projects which have been justified by a CBA analysis is almost as important as the original analysis. Poor decisions need to be analysed to find the weak links in the decision process. An alternative process, for which considerable claims have been made, is the Planned Programmed Budgeting System, which is concerned with the monitoring and control of projects.

10.30 Planned Programmed Budgeting Systems

Conventional public sector budgets are tied to a particular department for a specified period. They are related to inputs over a defined area, normally on an annual basis. Planned Programmed Budgeting Systems (PPBS) are intended to direct the focus of reporting away from the department and the inputs, towards the programme and the output or degree of achievement of the set objectives. The details of the programme and the financial controls may be within the capabilities of the existing accounting systems, but there is a new dimension in the area of output measurement; does the programme achieve the objectives for which it was designed?

Dennison examined the rise and fall of PPBS in some detail and the main points are given below.⁴⁹⁸ The review begins with an outline of the recent rapid increase in government expenditure and the perceived need for a better control of programmes. He noted the modification of traditional forms of budgeting and the arrival of PPBS:

"In the same way the introduction of a PPBS to aid in resource decision-making could be seen as part of a continuing development, but too often the impression was clearly given that a PPBS approach presented a radical alternative to every other development past or present".⁴⁹⁹

Thus, the first of Dennison's criticisms was the extreme claims made for PPBS. The second related to the assumption of rationality for the solutions to problems which were/are generated by PPBS. This assumption

⁴⁹⁸. Dennison, W.F., "Management Developments in Government Resource Association: The Example of the Rise and Fall of PPBS Planning-Programming-Budgeting System", The Journal of Management Studies (October 1979) pp.270-282.

⁴⁹⁹. *ibid.*, p.272.

means a by-passing of the political dimension in decision-making and resource allocation:

"Community needs do not allow themselves to be specified as a series of separate and unrelated components; alternative means of satisfying needs are often available but estimating costs and, in particular, benefits, to a sufficient degree of accuracy to demonstrate convincingly that one alternative is better than the others is rarely possible..."⁵⁰⁰

The third criticism of the use of PPBS resulted from the adoption of a defence model in non-defence areas. The PPBS model was developed by the US Defence Department and, because it seemed to satisfy management needs there, it was moved into non-defence departments. The format used for developing all programmes was rigid (the four documents):

"Each department was committed to the production and use of these documents, irrespective of the nature of its activities and the problems these created, until 1971, when the requirement for programme and financial plans, programmable memoranda and special studies was dropped..."⁵⁰¹

The post 1971 approach was more flexible but led fairly quickly to a breakdown of the PPBS as a decision-making mechanism.

The rise in popularity of PPBS was attributed to the creation of an environment, through the publication of books and articles, which was highly favourable to the model. The fall in popularity followed from the inherent weaknesses of the model and the earlier promotion. The model was not revolutionary, but was presented as such; it could not answer the political question of which programme should have more support and which should have less, and finally the defence department model was inappropriate for wider use. The difficulties likely to be encountered by an education authority in using PPBS were outlined:

500. *ibid.*, pp.273-274.

501. *ibid.*, p.275.

"So it was the familiar pattern of a programme structure of activities in pursuit of specified objectives, a multi-year programme and financial plan, and an analysis of programmes (supported where necessary by analyses of alternative means of achieving objectives) which was recommended".⁵⁰²

Dennison went on to illustrate the difficulties likely to be encountered in applying tight specifications of objectives to an education system. Despite drawing attention to weaknesses in traditional government budgeting systems, and to the advantages of longer range plans and more clearly specified objectives, PPBS has declined in relative importance over the last few years.

10.40 Zero Based Budgeting

Zero based budgeting has been advocated for use in both the private⁵⁰³ and public⁵⁰⁴ sectors for several years. It is designed to avoid the problems associated with traditional budgeting techniques:

"Most new ideas in public sector budgeting are promoted on the basis of criticisms of the traditional budgeting process. PPBS, Zero Based Budgeting and other reforming mechanisms have all been advocated in that way."⁵⁰⁵

The technique is based upon a "starting again" approach to the activity being undertaken, with no individual activity being guaranteed continuity within the organisation. Herein lies the attractiveness of the approach, which would provide for more radical changes within the organisation, overcoming the usual resistance to change. However, the possibility of abrupt change and associated lack of security, for both programmes and

⁵⁰². *ibid.*, p.279.

⁵⁰³. Phyrre, P.A., "Zero-Base Budgeting", *Harvard Business Review*, Vol 48, No.12 (November-December, 1970) pp.111-121.

⁵⁰⁴. The initial impetus for work on Zero Base Budgeting in the public sector came from the use in the Georgia state budget under Governor (later President) Carter.

⁵⁰⁵. Jonsson, S., "Budget Making in Central and Local Government", in Hopwood, A.G. and Tomkins, C. (Eds) *Issues in Public Sector Accounting* (Phillip Allan, Oxford, 1984) p.130.

associated personnel, generate negative behavioural responses.⁵⁰⁶ Although there have been reports of the successful implementation of ZBB, especially in the cases of Texas Instruments⁵⁰⁷ and the Bendix Corporation⁵⁰⁸, the promised improvements do not seem to have been achieved.^{509, 510}

One of the most widely quoted criticisms of ZBB is that offered by Anthony.⁵¹¹ These have been summarised by Small and Mansfield in the following terms:

"The benefits, he states, are not really possible to achieve because conceptually the idea of sub-dividing every activity in a complex organisation into decision packages is just not feasible, given the number this involves. Even if it were possible to reduce these to a viable size, it would still not be possible in the time available to make the type of analysis which ZBB requires."⁵¹²

ZBB is inadequate because although it is a potentially useful tool, there are question marks over issues of cost-effectiveness and behavioural consequences. It is also an incomplete technique since it is concerned with the provision and control of inputs and does not pay the same amount of attention to outputs.

10.50 Socio-Economic Accounting

It is argued that traditional government budgetary control models do not address resource allocation and decision-making problems in a fully satisfactory manner. The three alternative systems considered above, CBA,

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- ⁵⁰⁶. Shah, M.M., "Zero Based Budgeting A Critique", The Chartered Accountant (India) (October 1978).
 Bergeron, P.G., "The Human Side of Zero Based Budgeting", CGA Magazine (March 1979).
 both cited in -
 Gul, F.A.K., "Zero Base Budgeting (Revisited)" The Australian Accountant (March 1981) pp.121-126.
- ⁵⁰⁷. Pyhrr, op.cit.
- ⁵⁰⁸. Small, J.R. and Mansfield, R., "Zero Base Budgeting-Theory and Practice," The Accountants Magazine (May 1978) pp.191-196.
- ⁵⁰⁹. Jonsson, op.cit., p.145.
- ⁵¹⁰. Suver, J. and Brown, R., "Where Does Zero Base Budgeting Work", Harvard Business Review (November 1977) p.81.
- ⁵¹¹. Anthony, R.N., "Zero Based Budgeting is a Fraud", Wall Street Journal (April 27, 1977).
- ⁵¹². Small and Mansfield, op.cit., p.196.

PPBS and ZBB each have claimed advantages and disadvantages. It is probably sufficient for the present purpose to suggest that even if these systems were more widely accepted, they would not address the issues which proponents of SEA are attempting to address. That is, how do we evaluate both input and output in respect of publicly funded projects?

Linowes has written in favour of a different treatment of government and semi-government activities. He argued for the use of accounting techniques and attesting procedures to improve the quality of the data used and the manner in which it is manipulated. This improvement is directed particularly at budgeting, forecasting and project control activities.⁵¹³ It is argued that improved measurement techniques are needed because of limited resources and apparently unlimited demands for greater government involvement. Difficult choices need to be made and some programmes must be favoured ahead of others. Although political expediency will always be present, improved quality of information, in the planning, control and post operational evaluation stages, may eventually lead to better decisions.

Linowes has been supported by Mobley in the development of socio-economic accounting.⁵¹⁴ However, Francis argues persuasively that many accountants do not have the training or background to deal with complex statistical tools in the social science area.⁵¹⁵ Birnberg and Gandhi have useful observations on this issue.⁵¹⁶

Unfortunately, the advocates of SEA have not followed up the early theoretical work with concrete examples of evaluation models. Models of the social audit process have been produced but these are not exclusively designed for use in SEA.⁵¹⁷ In this thesis educational evaluation models are discussed in the absence of other examples.⁵¹⁸

⁵¹³. Linowes, op.cit.

⁵¹⁴. Mobley, S.C., "The Challenges of Socio-Economic Accounting", The Accounting Review (October 1970) pp.762-768.

⁵¹⁵. Francis, M.E., "Accounting and the Evaluation of Social Programs: A Critical Comment", The Accounting Review (April 1973) pp.245-257.

⁵¹⁶. Birnberg, J.G. and Gandhi, N.M., "Toward Defining the Accountants' Role in the Evaluation of Social Programs, "Accounting, Organizations and Society, Vol.1 No.1 (1976) pp.5-10.

⁵¹⁷. Corson and Steiner, op.cit.

⁵¹⁸. Mathews, M.R., "Socio-Economic Accounting - A Consideration of Evaluation Models", Discussion Paper No.2 (Department of Accounting and Finance, Massey University, 1981).

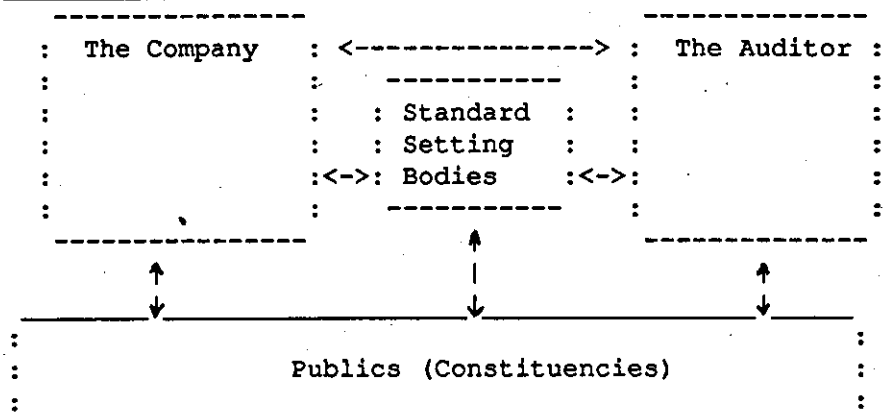
Socio-economic accounting models will be necessarily complex since they will be called upon to assist in making decisions about the effectiveness and efficiency of publicly funded activities in the absence of market prices for outputs. Inputs may be valued in financial and non-financial terms but outputs will often be limited to non-financial values, for example the number of employable school leavers, reformed prisoners or discharged patients.

10.51 Social Audit

Social audits and evaluation programmes have been discussed in chapter nine in the context of developing a conceptual framework as a step towards implementation. It is important to distinguish these proposals from CBA and PPBS which are techniques already in use in the public sector. Social audits and evaluation programmes in the public sector attempt to answer the fairly obvious questions of "how does one attempt to measure the extent of problems once they have been identified?" and "what is meant by evaluating a publicly-funded programme?"

Sellers discussed the concept of a social audit.⁵¹⁹ The model involved four parties as shown in Exhibit 62. Although a private sector organisation is envisaged by Sellers (in which context the model is perhaps better related to social responsibility accounting), it may be easily adapted to the public sector. "The Company" may be replaced by the "The Public Corporation or enterprise" without any change of meaning.

EXHIBIT 62
Relationship of the Parties to the Social Audit Process

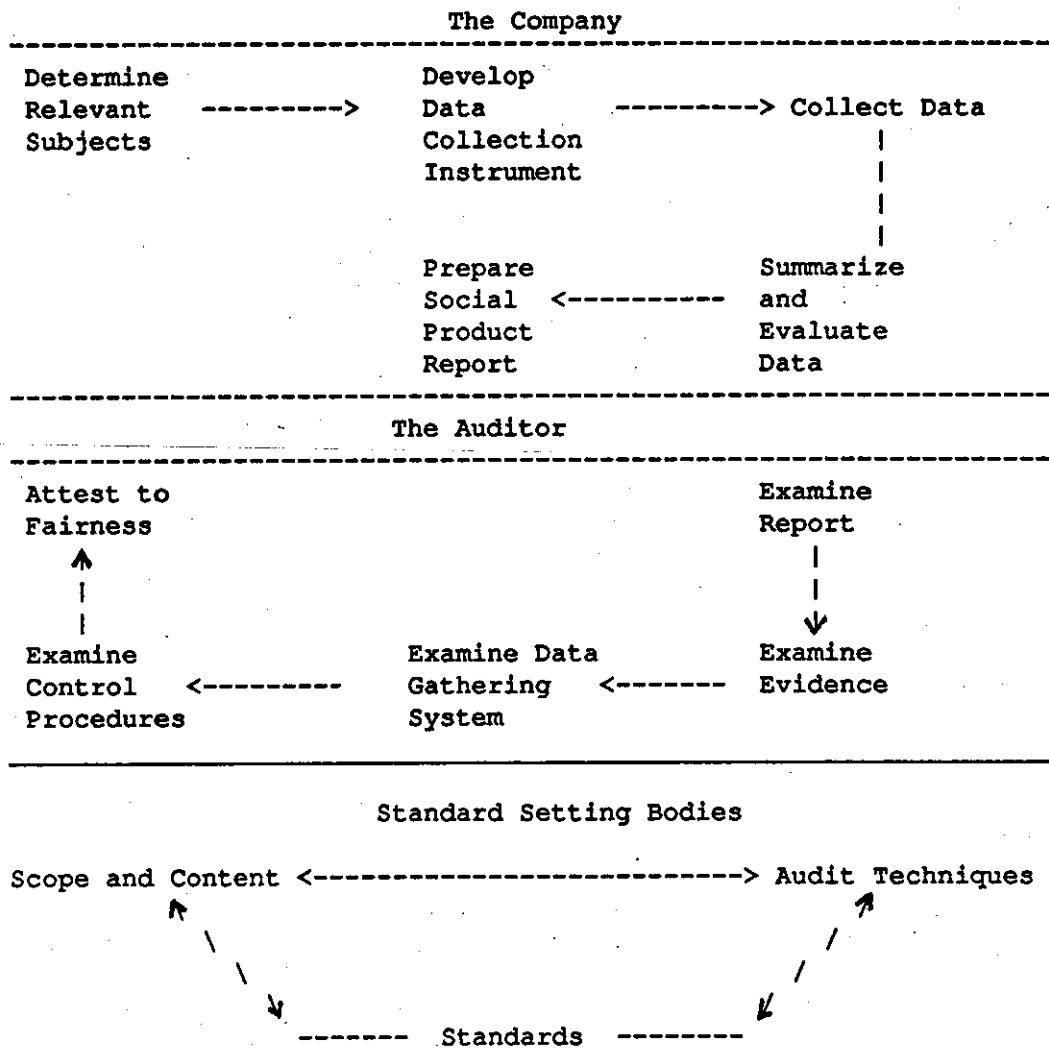


⁵¹⁹. Sellers, J.H., "A Conceptual Model for the Social Audit", Singapore Accountant (June 1981) pp.24-29.

The parties involved are responsible for the actions described in Exhibit 63, which leads to a final report. In the case of socio-economic accounting the audit report is a part of the overall evaluation of the publicly funded programme.

EXHIBIT 63

The Company (Public Corporation or Enterprise) and the Social Audit Function



A weakness in the Sellers approach is the lack of detail from which to answer the inevitable questions, "how is the socio-economic evaluation to be carried out?" and "what are the differences between it and a traditional approach to the evaluation of government programmes?" The approach used by Sellers is only useful in the context of socio-economic accounting in providing a starting point. As noted above, the proponents of socio-economic accounting have not provided their own models. It is, therefore,

necessary to develop idiosyncratic models or to borrow suitable material from mainstream accounting or other appropriate areas.

10.60 Evaluation Models

Several models have been generated within the education evaluation literature including models by Stake⁵²⁰, Stufflebeam⁵²¹ and Provus⁵²². This borrowing of models has been necessary because of the lack of suitable models in the accounting literature. The Stake model is a judgemental evaluation model, and may offer useful insights into the evaluation of publicly funded programmes by socio-economic accountants. Stufflebeam has provided the CIPP Evaluation Model which is a scheme for the classification of strategies for evaluating educational change. Provus uses a discrepancy model similar to management accounting budgetary control systems.

10.61 The Stake Model

The Stake model is shown in Exhibit 64. It is a data matrix, whereby the evaluator is concerned with three kinds of data, antecedent, transactional and outcome. The antecedent data refers to the position which existed at the time the programme was implemented; the transactional data refers to the actual process which is taking place or has taken place as a result of the programme, and the outcome data records the results of the process. These results will include both positive and negative aspects.

In another dimension Stake is concerned with judgement as well as description. That is, an evaluation of actual against planned outcomes from the specific programme. The Stake model is not constrained by setting fixed objectives before beginning the programme, therefore changes of goal may be accommodated. Indeed the strengths and weaknesses of this model, are the large amount of different data which may be accommodated within the basic framework. The volume of data may be seen as a strength since we are dealing with both financial and non-financial measurements. Conversely, the volume of data makes presentation of a final judgement more difficult because of potential conflict between different aspects of the data. The

520. Stake, R.E., "The Countenance of Educational Evaluation", Teachers College Record Vol.68 (1967) pp.523-540.

521. Stufflebeam, D., "Towards a Science of Educational Evaluation", Educational Technology (July 1968) pp.6-12.

522. Provus, M., Reported in, Mackay, D.D. and Maguire, M., Evaluation of Instructional Programs (Alberta Human Resource Research Council, Alberta, 1971) pp.40-49.

data itself may be suggestive of the analytical processes to be employed. The model also assists the judgemental function by making clear the criteria which are to be employed in making the judgement. These points are made clearer by an examination of Exhibit 64.

EXHIBIT 64

The Countenance of Educational Evaluation - the Basic Matrix Design

	Intents	Observations	Standards	Judgements
Rationale		Antecedents		
		Transactions		
		Outcomes		
	Description Matrix		Judgement matrix	

Source: Stake, op.cit.

We have already indicated the role of antecedents, transactions and outcomes and the presence of both descriptive and judgemental aspects. The relationship between intents and observations (both part of the descriptive matrix) is given below in Exhibit 65. It will be noted that the comparison between the intended variables and those which are observed in practice, will provide a measure of the internal success or congruence of the programme. The relationship between the descriptive matrix and the standards provides a basis for making judgements about the programme.

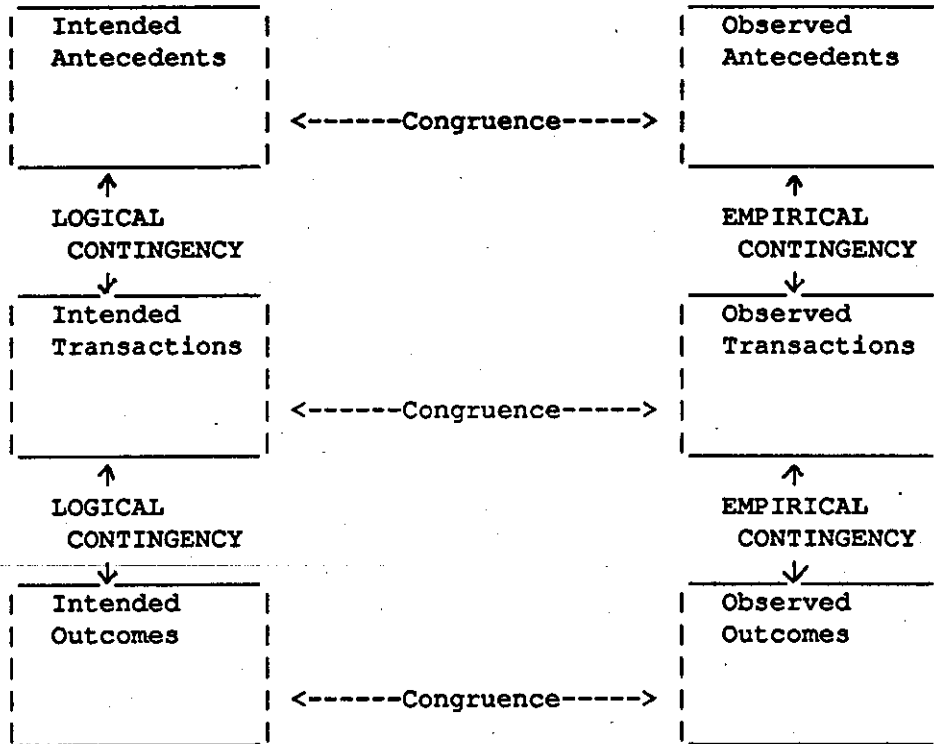
The evaluation model tests for logical consistency between the intended antecedents, transactions and outcomes. In other words, given the antecedents which exist when work begins and the transactions which will be undertaken, is it logical that the intended outcomes will eventuate? If not, why not? Furthermore, what is the degree of congruence between intended and observed variables? Finally, given the observed antecedents and transactions is there an empirical consistency between the two and between the observed transactions and outcomes? Once this process has been

undertaken the analyst may compare the observed variables with the standards and make judgements.

EXHIBIT 65

The Processing of Descriptive Data: congruence and logical consistency

Descriptive data



Source: Stake, op.cit.

10.62 The Stufflebeam Model

The model used by Stufflebeam is sometimes referred to as a CIPP model after the constituent parts, context evaluation; input evaluation; process evaluation; and product evaluation. Stufflebeam regards evaluation as the process of acquiring and using information for making decisions associated with planning, programming, implementing and recycling activities. Context evaluation, the first stage, attempts to identify and assess needs and to get at the underlying problems. Input evaluation, the second stage, requires the evaluator to assess system capabilities, available input strategies and designs for implementing the strategies. The third stage is process evaluation, where the goal is to identify and predict in process the defects in the design or its implementation. The final stage is product evaluation in which the goal is to relate outcomes to objectives and to context, input and process information. The model is given in full as Exhibit 66.

Stufflebeam and Stake treat the question of judgement differently. Stake has a place for judgement in the judgemental matrix, Stufflebeam has no similar position. The evaluator provides a higher authority with the information that that person needs to reach a decision about a programme. The evaluator or analyst does not judge or make a final decision. This aspect of the model may make it less acceptable as an inspiration for a socio-economic accounting programme. This will be discussed later on in this thesis.

To get the best results from the CIPP model it would need to be used before the programme commenced in order to record the context and input information. A close monitoring of the process throughout its operation might also be a requirement for the successful implementation of this model. Stufflebeam has also made a useful contribution to the development of evaluation design beyond that of specifying a model. The four parts of the CIPP model require a logical structure of evaluation design. The evaluation needs to be focussed to collect and organise information, to analyse the information, report on the findings and to administer the evaluation. The full evaluation design is provided as Exhibit 67.

EXHIBIT 66

The CIPP Evaluation Model: A Classification Scheme of Strategies for Evaluating Educational Change

Strategies	Context Evaluation	Input Evaluation	Process Evaluation	Product Evaluation
Objective	To define the operation context, to identify & assess needs in the context, and to identify and delineate problems underlying the needs.	To identify and assess system capabilities, available input strategies, and design for implementing the strategies.	To identify or predict, in process, defects in the procedural design or its implementation, and to maintain a record of procedural events and activities. By monitoring the activity's potential procedural barriers and remaining alert to unanticipated ones.	To relate outcome in formation to objectives and to context, input, and process information.
Method	By describing individually and in relevant perspectives the major sub-systems of the context; by comparing actual and intended inputs and outputs of the sub-systems; and by analysing possible causes of discrepancies between actualities	By describing and analysing available human and material resources, solution strategies, and procedural designs for relevance, feasibility and economy in the course of action to be taken.		By defining operationally and measuring criteria associated with the objectives, by comparing these measurements with predetermined standards or comparative bases, and by interpreting the outcome in terms of recorded input and process information.
Relation to Decision-making in the Change Process	For deciding upon the setting to be served, the goals associated with meeting needs and the objectives associated with solving problems, i.e. for planning needed changes.	For selecting sources of support, solution strategies and procedural designs, i.e. for programming change activities.	For implementing and refining the programme design and procedure, i.e. for effecting process control.	For deciding to continue, terminate, modify or refocus a change activity; for linking the activity to other major phases of the change process, i.e. evolving change activities.

EXHIBIT 67
Developing Evaluation Designs

The logical structure of evaluation design is the same for all types of evaluation, whether context, input, process or product evaluation. The parts, briefly, are as follows:-

A. Focusing the Evaluation

- (1) Identify the major level(s) of decision-making to be served, e.g. local, state, or national.
- (2) For each level of decision-making, project the decision situations to be served and describe each one in terms of its locus, timing and composition of alternatives.
- (3) Define criteria for each decision situation by specifying variables for measurement and standards for use in the judgement of alternatives.
- (4) Define policies within which the evaluation must operate.

B. Collection of Information

- (1) Specify the source of the information to be collected.
- (2) Specify the instruments and methods for collecting the needed information.
- (3) Specify the sampling procedure to be employed.
- (4) Specify the conditions and schedule for information collection.

C. Organisation of Information

- (1) Specify a format for the information to be collected.
- (2) Specify a means of coding, organising, storing, and retrieving information.

D. Analysis of Information

- (1) Specify the analytical procedures to be employed.
- (2) Specify a means for performing the analysis.

E. Reporting of Information

- (1) Define the audiences for the evaluation reports.
- (2) Specify means for providing information to the audiences.
- (3) Specify the format for evaluation reports and/or reporting sessions.
- (4) Schedule the reporting of information.

F. Administration of the Evaluation

- (1) Summarise the evaluation schedule.
- (2) Define staff and resource requirements and plans for meeting these requirements.
- (3) Specify means for meeting policy requirements for conduct of the evaluation.
- (4) Evaluate the potential of the evaluation design for providing information which is valid, reliable, credible, timely and pervasive.
- (5) Specify and schedule means for periodic updating of the evaluation design.
- (6) Provide a budget for the total evaluation programme.

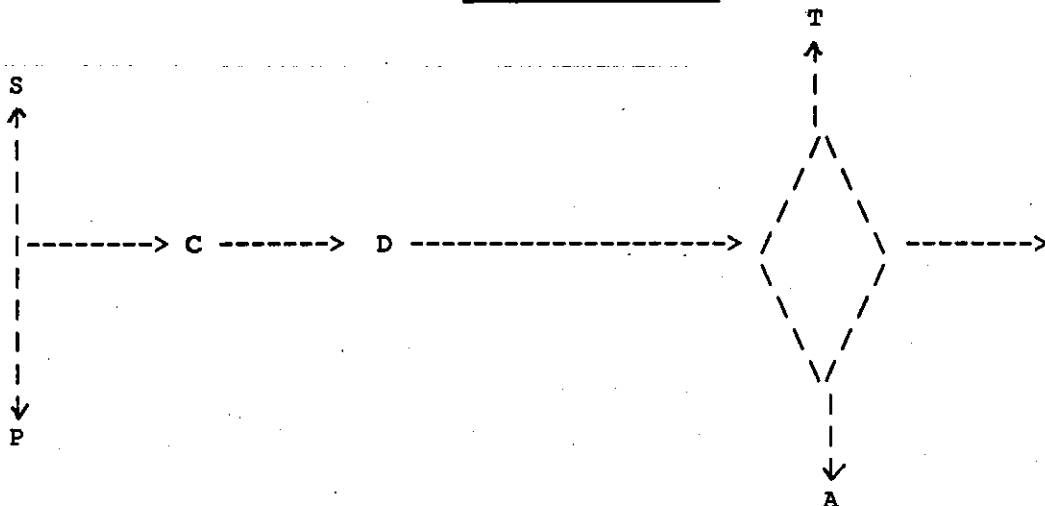
Source: Stufflebeam op.cit.

10.63 The Provus Model

The third evaluation model with which we are concerned is offered by Provus. It will become apparent that the Provus model of evaluation has much in common with budgetary control systems. It is referred to as a discrepancy model because it is based on the premise that evaluation involves the comparison of performance with standards. This leads logically to three stages. First, the programme standards are defined and set. Second, analysis determines whether a discrepancy exists between one or more aspects of programme performance and the standards governing that part of the programme. Third, the determination of discrepancy information will be used to change performance or standards and may involve terminating the programme.

There are five stages to the complete Provus model, these are shown in Exhibit 68 below:-

EXHIBIT 68
The Provus Model



Where - S = standard
 P = programme performance
 C = comparison of S with P
 D = discrepancy information resulting from C
 T = terminate
 A = alteration of P or S

The five stages of the discrepancy model are design, installation, process, product and cost benefit. At each stage performance is compared with standards to discover any discrepancies which may lead to decisions to modify either the programme or the standards.

The design evaluation focuses on the nature, objectives, personnel and resources of the programme. The installation evaluation focuses on the

installed programme to see whether it is congruent with the original plans. The process evaluation attempts to discover whether the programme has yet achieved its objectives. At each of these stages performance is compared with standards in order to discover discrepancies which may lead to decisions to modify the programme, or the standards, to terminate or to continue the programme. The fifth and final stage of this model is cost-benefit analysis of the completed programme against other programmes. This is the most difficult stage since all the problems associated with CBA will be present, especially the problem of which discount rate to use.

10.64 Examples of the Use of a Stake Model Approach in Socio-Economic Accounting

As indicated above socio-economic accounting is intended to be effective in evaluating short and medium-term publicly funded programmes, where a judgement must eventually be made about the continued operation of the programme. Examples might be taken from education, work experience, and health programmes.

The work experience programme is perhaps a suitable example to consider. If the government arranges a work experience/training programme for young people presently unemployed, public funds are being expended which must have an alternative use elsewhere. There is an opportunity cost attached to the resources used. Such a programme will have a number of objectives and expected outputs, which should be made explicit at some point in the planning process. The evaluation of a scheme such as a work experience or training programme could be carried out under existing government accounting systems. However, these systems would be mainly concerned with how much money was spent, compared to the amount authorised and whether the spending took place in the approved accounts. A more modern approach, such as planned programmed budgeting systems, would still not view the input-output relationships in the same manner as does the Stake model. In this context the Stake model would first be used to examine the rationale for the programme and then consider in detail the descriptive and judgemental matrix. The descriptive matrix would be concerned with:-

- (i) antecedents - what resources were planned or intended to be allocated to the programme, compared to those observed to be actually used in operations.

- (ii) transactions - did the processes and procedures which were originally intended or planned actually take place? To what extent did the observed procedures differ from those intended when the programme was planned?
- (iii) outcomes - an outcome was planned. Perhaps in this example it was young people who were "more employable" than before they started the programme. This concept would need to be operationalised and quantified in terms which could be measured. The observation would be of the number who did meet the criteria, compared to the number who did not, and therefore remained unemployable.

The judgemental matrix compares what has been observed, with some sort of standard, in order to make a judgement about the event.

The Stake approach may be used to evaluate hospitals and medical services provided that input and output measures can be agreed upon. Many factors which are left unexamined at the present time would be taken into account by the Stake model if it was applied to socio-economic accounting exercises. An important part of such an evaluation would be non-monetary quantitative measurements, which are currently ignored by accounting based evaluations. It is not suggested that this form of socio-economic accounting is appropriate to all circumstances or that it should be used in place of more conventional forms of financial reporting. However, it is argued that the added dimension is required to enable better decisions to be made and to monitor their implementation. The current pressure for greater accountability for public expenditure, which is being experienced in many countries, will require new systems similar to those described above.

10.70 Institutional Performance Evaluation

Socio-economic accounting is further exemplified by the literature dealing with institutional performance evaluation, which involves the use of financial and non-financial, qualitative and quantitative measures, to evaluate the attributes of an educational institution. The specific area discussed is that of higher education, generally the university sector, which is suffering from reduced funding, often larger student inflows and a call for more accountability by governments. This area of research is

quite compatible with the others in this chapter because non-traditional measurement methods are employed in evaluating a public sector activity.

Sizer noted the importance of measures of effectiveness as well as efficiency:

"Is an institution of higher education effective if it achieves objectives which are appropriate to the economic, socio-political, technological, ecological, and educational environment in which it operates? Should its objectives be congruent with the long-term needs of society".⁵²³

To agree on notions of effectiveness implies the acceptance of a common set of objectives, at least at the institutional level, and this would enable planning and evaluation by non-profit indicators to be undertaken. This has not been generally possible and consequently, the popularity of PPBS and CBA has declined. Sizer suggests that 'partial' performance may be used:-----

"Whilst it may not prove possible to agree objectives, measure outcomes and develop performance indicators for an institution as a whole, it often proves possible to do so for parts of the organisation; i.e. to develop performance indicators that relate physical and monetary inputs to physical and monetary outputs and outcomes, and to build these into the planning and reporting system".⁵²⁴

Sizer has developed partial performance indicators for institutions of higher education.⁵²⁵ This scheme, reproduced as Exhibit 69 below, is based upon the characteristics for performance indicators developed by Sorenson and Grove. These are, availability, awareness, accessibility, extensiveness, appropriateness, efficiency, effectiveness,

⁵²³. Sizer, J., "Performance assessment in institutions of higher education under conditions of financial stringency, contraction and changing needs: A management accounting perspective", a paper presented to the Third Annual Congress of the European Accounting Association (March 1980) p.5.

⁵²⁴. *ibid.*, p.18.

⁵²⁵. *ibid.*, p.19.

outcomes/benefits/impacts, and acceptability.⁵²⁶

EXHIBIT 69

Properties of performance indicators in higher education

FOCUS OF MEASURE	CONCEPTUAL CONTENT	TELLS	EXAMPLES
AVAILABILITY	Amount and type of course, research facility, or central service provided.	What can be obtained	List of services available in Careers Advisory Service; list of facilities and opportunities available in academic department; number, capacities, and locations of lecture and seminar rooms.
AWARENESS	Knowledge of User Population of existence; range and	Who knows about what is available	Knowledge of prospective students of courses offered by an academic department
PPROPRIATENESS	Correct type and amount of service rendered, course offered, or research undertaken	Is quantity and/or quality of facility offered that required?	Demand for courses; number and quality of applicants; mis-match between computing facilities required and available; comparison of class sizes to lecture and seminar room capacities.
EFFICIENCY	Compares resource inputs with outputs.	How much resource was used such as - how much did it cost per unit? - how much did it cost in total? - how much time did it take? - what grade of employee was used?	Cost per client service in medical centre. Cost per F.T.E. student by course. Cost per literature search. Cost per meal served.
EFFECTIVENESS	Compares accomplishment with objectives (or what was intended) -Qualitative -Comparative	Characteristics Duration Content Effect Proportion served Variances from budgets, standards.	Comparison of planned with actual; % utilisation of lecture and seminar rooms; number of students graduating; number of graduates employed; ratio of actual utilisation to planned utilisation of computer; comparison of budgeted cost of central service with actual cost; comparison of actual cost per F.T.E. for course with planned cost; comparison of planned course content with actual course content; actual wastage rate compared with planned wastage rate.
OUTCOMES BENEFITS IMPACTS	Identifies Social or Economic Benefits	Monetary effects Non-Monetary effects	Increase in earnings arising from attendance at/graduating from course; benefits to society of successful research into previously incurable disease; benefits to local community of cultural programme; patents and copyrights registered.
ACCEPTABILITY	Assess match of service/course/research outcomes with user/participant preferences.	User satisfaction with service; Student satisfaction with courses; Client satisfaction with outcome of sponsored research	Demand for courses; number of complaints to Librarian; course evaluation at end of lecture programme; repeat sponsoring of research.

Adapted from Sizer - Performance Assessments in Institutions of Higher Education Under Conditions of Financial Stringency Contraction and Changing Needs.

Note - F.T.E. denotes Full Time Equivalent student.

⁵²⁶ Sorenson, J.R. and Grove, H.D., "Cost-Outcome and Cost-Effectiveness Analysis: Emerging Non-profit Performance Evaluation Techniques", The Accounting Review, Vol.LII No.3 (July 1977) pp.658-675.

Although many of the partial performance indicators shown in Exhibit 69 are process measures, Sizer argues for the development of progress measures which would assess the quality of institutions and programmes:

"At the present time there is a strong case for developing progress measures of performance in addition to process measures and measures of outcomes/benefits/impacts".⁵²⁷

EXHIBIT 70
Process Measures in Higher Education Indicators System

I-INSTITUTIONAL	II SUBJECT GROUPING LEVEL	III SUBJECT LEVEL
<p>- GENERAL DATA</p> <p>1-1 - Number of FTE Students</p> <p>1-2 - Number of Academic Posts</p> <p>1-3 - Annual Budget</p> <p>1-4 - Space Provision</p> <p>- STRUCTURAL DATA</p> <p>1-5 - Proportion of Staff Costs within the Total Budget</p> <p>1-6 - Amount of Resources Obtained from Third Parties in Relation to the Annual Budget</p> <p>1-7 - Expenditure at Subject Grouping Level within the Annual Budget</p> <p>1-8 - Academic Orientation (Proportion of Liberal Art Subjects (in terms of student numbers))</p>	<p>- GENERAL DATA</p> <p>1-9 - Number of FTE Students</p> <p>1-10 - Number of Academic Posts</p> <p>1-11 - Direct Expenditure by Subject Grouping</p> <p>- EXPENDITURE INDICATOR</p> <p>1-12 - Direct Expenditure per FTE Student</p>	<p>- GENERAL DATA</p> <p>1-13 - Number of FTE Students</p> <p>1-14 - Number of Academic Posts</p> <p>1-15 - Direct Expenditure by Subject</p> <p>1-16 - Total of Teaching Hours</p> <p>1-17 - Space Provision</p> <p>- EXPENDITURE INDICATORS</p> <p>1-18 - Direct Expenditure per FTE Student</p> <p>1-19 - Indirect Expenditure per FTE Student</p> <p>- STAFF STUDENT RATIOS</p> <p>1-20 - Relation of FTE Students to Academic Posts</p> <p>1-21 - Relation of FTE Students to Teaching Hours</p> <p>1-22 - Proportion of Professorial P within the Total of Academic Posts</p> <p>1-23 - Proportion of Professorial Teaching Hours within the total of Teaching Hours</p> <p>- SPACE PROVISION</p> <p>1-24 - Space Provision per FTE Student</p> <p>- STAFFING STRUCTURE</p> <p>1-25 - Proportion of Expenditure on Academic Posts within the Total Expenditure on Staff</p> <p>1-26 - Total of Teaching Hours Realised by Part-time Teachers with Limited Contracts</p> <p>- STUDENT FLOW</p> <p>1-27 - Obligatory Weekly Seminar Time</p> <p>1-28 - Study Duration</p> <p>1-29 - Gross Continuation Rate</p>

Adopted from Elstermann and Lorenz, 1980).

Note - F.T.E. denotes Full Time Equivalent Student.

⁵²⁷ Sizer, op.cit., p.22. Original emphasis.

Progress measures of performance are not confined to the evaluation of efficiency but are aimed at institutional effectiveness. An alternative set of process performance indicators, directed towards measuring institutional efficiency, have been produced by Elstermann and Lorenz. They are shown as Exhibit 70.⁵²⁸

Sizer has asked whether the standards developed by the American Accounting Association could be applied to performance indicators in higher education.⁵²⁹

"These are the standards of relevance, verifiability, freedom from bias and quantifiability".⁵³⁰

This is an important question, not only for higher education performance measures (both progress and process types) but for all measures which may be included in socio-economic accounting. Indeed, the author provides an interesting reference which may be applicable to all forms of measurement, traditional and non-traditional, financial and non-financial:

"The problems of agreeing objectives, identifying and measuring the component parts of the institutions, and of evaluating performance and effectiveness, suggests that only 'partial' measures of performance are possible and that a proper balance has to be struck between qualitative and quantitative aspects".⁵³¹

10.71 Tennessee State College Programme

An interesting development in this field has been the Tennessee programme of performance incentives for state colleges. Performance is measured on five variables as given below:

528. Elsterman, F. and Lorenz, W., "Financing Universities on the basis of performance indicators?", a paper presented to the Ninth Special Topic Workshop of the IMHE Programme, OECD/CERI December 1980. Table cited by Sizer, "Institutional Performance Assessment Adaptation and Change" (1981) p.15.

529. American Accounting Association, A Statement of Basic Accounting Theory (AAA, Sarasota, 1966).

530. Sizer, 1980, op.cit., p.26.

531. ibid., p.45.

"Number of academic programmes accredited, such as law, engineering, education and business.

Performance of graduates on a measure of outcomes in general education, such as ability to communicate, analyse, and evaluate, and familiarity with major models of intellectual inquiry.

Performance of graduates in tests in their major fields (nursing exams, engineering exams, and so forth).

Evaluation of programs and services by enrolled students, recent alumni, and community-employer representatives, principally through follow-up questionnaires.

Peer evaluation of institutional programs. This entails evaluation by colleagues from similar institutions".⁵³²

Institutions are grouped into three categories (universities, community colleges and technical institutes) and graded up to 20 points for each of the five variables. The scheme had been operating for three years at the time of the preparation of the article. A bonus of up to 2% of the agreed budget can be paid to institutional management as a result of acceptable performance against agreed standards. This general area of institutional performance evaluation has considerable potential for development by socio-economic accountants.

10.80 Value For Money (VFM) Auditing

10.81 Introduction

Earlier sections of this chapter examined briefly CBA, PPBS and ZBB. Each was found to be inadequate as a means of monitoring, controlling and reporting on short and medium term publicly funded activities. CBA is intended to facilitate decision making by discounting future costs and benefits to the present in order to determine net cost or net benefit. In addition to the problems of making estimates and determining discount rates, decisions will be impacted by political expediency. Attempts to convert non-financial data to financial measurements involve subjectivity

⁵³². Bogue, E.G. and Brown, W., "Performance Incentives for State Colleges", Harvard Business Review (November-December 1982) p.124.

to perhaps an unacceptable degree. Furthermore, CBA has very little to say about the control of projects once they have been implemented. PPBS is intended to facilitate the control of projects, once a decision to implement them has been made by the political authorities. A number of deficiencies of this approach have already been discussed. In terms of the overall objective of this chapter it should also be noted that PPBS is intended to control inputs in monetary terms without reference to outputs, which can be both monetary and non-monetary. ZBB was criticised for the cost and difficulty associated with implementation, together with the dysfunctional behavioural consequences which are likely to be encountered. Once again this model is primarily concerned with monetary quantification and not with input-output relationships. The concept of socio-economic accounting is concerned with input-output relationships using both financial and non-financial quantification. This section examines value for money (VFM) audits to see if they are a viable alternative to the SEA model.

10.82 The Development of VFM

Value for money auditing as a general practice has a relatively short history of some fifteen to twenty years, which corresponds to that of most developments reviewed in this thesis. Although there are variations in approach from one country to another, which are described in the next section, all are concerned with the review of publicly funded programmes from the perspective of the "three E's". These are economy, efficiency and effectiveness and are defined in the following terms:

Economy - The acquisition of resources in appropriate quantity and quality at the lowest cost.

Efficiency - The relationship between the goods or services produced and the resources used to produce them.

Effectiveness - The extent to which programmes or goods and services produced achieve their objectives.

The criticism leveled at VFM is that although the reviews of economy and efficiency are thorough, those of effectiveness are often inadequate.

Grimwood and Tomkins, for example, question whether VFM audits do address the issue of effectiveness.⁵³³

Before considering the strengths and weaknesses of this approach to evaluating publicly funded projects it is necessary to consider the origins of VFM and national variations in practice.

10.83 A Comparison of VFM Approaches

Glynn⁵³⁴ has surveyed VFM auditing practices in six countries, thus providing a valuable introduction to the area. The countries are, the U.K., Canada, Australia, New Zealand, the U.S. and Sweden.

In the U.K. the Local Government Finance Act 1982 provided for the audit of publicly funded activities to determine;

"... that local authorities have made proper arrangements for securing economy, efficiency and effectiveness in the use of their resources; and to report on matters of public interest (undefined) which come to his attention."⁵³⁵

A different part of the act set up an Audit Commission to carry out most of these audits, through the District Audit Service. A different but comparable operation is carried out in Scotland.

There has been considerable criticism of the VFM audits of local government which are seen as part of the restrictive monetary policy operated by the central government⁵³⁶ and also because the audit is incomplete since:

⁵³³. Grimwood, M. and Tomkins, C., "Value for Money Auditing - Towards Incorporating a Naturalistic Approach", Financial Accountability and Management, Vol.2 No.4 (Winter 1986) pp.251-272.

⁵³⁴. Glynn, J.J., "Value for Money Auditing - An International Review and Comparison", Financial Accountability and Management, Vol.1 No.2 (1985) pp.113-128.

⁵³⁵. *ibid.*, p.114.

⁵³⁶. *ibid.*, p.114.

"In only a few years important moves have been made with respect to two important aspects of value for money: economy and efficiency. However, the third and most important element, that of effectiveness, appears so far to be only of secondary importance."⁵³⁷

The Canadian VFM system originated earlier than that in the U.K. It dates from developments in the mid 1970's which led to the appointment in 1979 of a Comptroller-General and a Royal Commission on Financial Management and Accountability, and subsequently to the development of the "comprehensive" approach to auditing. The Canadian Federal Audit-Office defines comprehensive auditing as;

"... the term is used by the office of the Auditor General and others to describe the broad-based auditing approach which is aimed at systematically reviewing and reporting on accountability relationships and on the supporting activities, systems and controls employed by management in fulfilling its responsibilities."⁵³⁸

The Canadian Comprehensive Auditing Foundation has described comprehensive auditing as follows:

- " * financial, human and physical resources are managed with due regard to economy, efficiency and effectiveness; and
- * accountability relationships are reasonably served. The comprehensive audit examines both financial and management controls, including information systems and reporting practices, and recommends improvements where appropriate."⁵³⁹

The above clearly extends the traditional transaction audit process to involve both physical resources and measures of effectiveness. Consequently a link with socio-economic accounting may be discerned in this definition of VFM auditing.

⁵³⁷. ibid., p.113.

⁵³⁸. Office of the Auditor General of Canada, An Approach to Comprehensive Auditing (Ottawa, 1981) p.42. Original emphasis - cited ibid., p.118.

⁵³⁹. Canadian Comprehensive Auditing Foundation, Comprehensive Auditing : Concepts, Components and Characteristics (Ottawa, 1983).

The position of VFM audits in Australia is complicated by the federal system of government. The Auditor-General for the Commonwealth of Australia is appointed under the 1979 amendment to the Audit Act of 1901. Although efficiency and economy in the use of resources are included as part of the Act, there is no requirement to examine programme effectiveness, although this activity has not been overlooked:

"The review of effectiveness falls within the purview of the Department of the Prime Minister. The efficiency audits reported upon to date have been undertaken as discrete projects separate from any other audit coverage by specialist staff of the Efficiency Audit Division."⁵⁴⁰

The various Australian states also have the office of Auditor General. At present no official holding that position enjoys an effectiveness review function although New South Wales employs the Premier's Department for this purpose. The Auditor-General of Victoria is able to become involved in comprehensive auditing by virtue of the Audit Act 1958 which refers to effective and economic auditing although this does not appear to involve effectiveness auditing. However, it has been argued that efficiency and effectiveness are not so different⁵⁴¹ and therefore the Act could be used or readily modified to permit or require effectiveness audits. Glynn reports that this position has not been resolved.⁵⁴² In a recent review of the Australian VFM experience Parker has noted that:

"The debates which have occurred in Australia over the role of the Auditor-General and the appropriate areas of responsibility for effectiveness reviews appear to suggest some level of political resistance to this concept."⁵⁴³

and

"Of concern also is the fact that Canadian, U.K. and new Zealand interest in VFM auditing appears to have been initially sponsored

⁵⁴⁰. *ibid.*, p.119.

⁵⁴¹. *ibid.*, p.120.

⁵⁴². *loc.cit.*

⁵⁴³. Parker, L.D., "Towards Value for Money Audit Policy", Australian Accountant (December 1986) p.82.

by a politically motivated concern to restrict public sector expenditure and to reduce costs as far as possible."⁵⁴⁴

VFM auditing is less developed in Australia than in Canada (and perhaps the U.K.) and may have the same defects as are alleged to occur in the U.K. in terms of the extent of the programme evaluation process and concern that the process is subject to political influence.

In New Zealand the Audit Office has been set up under the Public Finance Act 1977 to provide for an independent audit agency, with personnel and an organisation whose independent role is guaranteed. The authority to conduct value for money audits is provided under Section 25(3). However, most of the work of the Audit Office is organised within a structure called CARE;

- "C Control - the evaluation of management controls over the resources for which it is responsible.
- A Attest and Authority - the expression of an opinion on financial transactions.
- R Reporting - to Parliament, ministers and other external parties on matters arising from audits.
- E Effectiveness and Efficiency - the giving of an opinion on whether audited entities have applied their resources in an effective and efficient manner consistent with the policy of the governing body of that entity."⁵⁴⁵

Glynn noted the broad nature of the New Zealand mandate. The majority of the work of the Audit Office is concerned with the first three parts of the acronym. The audit of effectiveness and efficiency is undertaken on a project by project basis as time and staff are available. Suitably prepared staff are in short supply and Glynn noted that:

"The Audit Office has often acknowledged the fact that it cannot perform adequately in the value for money auditing area solely with accounting based skills."⁵⁴⁶

⁵⁴⁴. loc.cit.

⁵⁴⁵. Glynn, op.cit., p.121.

⁵⁴⁶. ibid., p.122.

Parker states that there have been thirteen operational reviews of local authorities. However:

"Since 1982, these audits have been restricted to the evaluation of controls in systems employed by management to promote efficiency and since 1984, staff recruiting difficulties and constrained resources have caused a substantial reduction in VFM audits."⁵⁴⁷

Current VFM audits in progress at the time of writing are concerned with the provision of support for the intellectually handicapped and the overall performance of the university system.

The United States has several organisations which are concerned with the control and audit of public sector accounts. These include the Office of Management and the Budget (OMB) which is responsible for the supervision, control and administration of the budget and the financial programmes of the government, and the General Accounting Office (GAO). The GAO is supportive of independent reviews of efficiency and effectiveness, which are termed 'program results review'. The review has been defined differently as demonstrated below. First, the GAO stated, in 1972, that there were three levels of audit:

"Level I (Financial and compliance) - An examination of financial transactions, accounts and reports, including an evaluation of compliance with applicable laws and regulations. (Purpose: to evaluate whether operations and resources are properly accounted for and presented in reports and whether legal requirements are being met.)

Level II (Economy and efficiency) - A review of efficiency and economy in the use of resources. (Purpose: to evaluate whether the management operates with due regard to conserving its monetary, property and human resources.)

⁵⁴⁷. Parker, op.cit., p.81.

Level III (Program results) - A review to determine whether desired results are effectively achieved. (Purpose: to evaluate the extent to which statutory or other goals are being achieved and whether alternative methods of operation should be considered.)⁵⁴⁸

Second in a 1978 Exposure Draft entitled "Comprehensive Approach for Planning and Conducting A Program Results Review" the GAO defined their approach:

"A program results review is a process or approach by which qualified individuals can determine the level of program effectiveness and, if necessary, identify areas for improved program performance.

A program results review extends beyond traditional audit theory into the realm of activities commonly known as evaluation and analysis. Program results review activities are neither constrained to the conventional audit of information and control systems nor as pervasive as the wide range of activities associated with evaluation and analysis."⁵⁴⁹

Managers of particular projects are allowed to develop effectiveness measures within their organisations and auditors are charged with satisfying themselves about the systems which are implemented. However, Glynn has commented that many of the in-depth investigations are 'ad hoc' and 'atypical' of the GAO approach.⁵⁵⁰

In Sweden, the main body dealing with VFM audits is the National Audit Bureau which carries out both financial and effectiveness auditing. These audits have been defined by the Auditor general of Sweden as follows:

"Financial auditing of a government agency shall result in a professional and impartial opinion on the agency's financial statement and records.

548. Grimwood and Tonkins, op.cit., p.251.

549. Glynn, op.cit., p.123.

550. ibid., p.124.

Effectiveness auditing in the central administration involves examining the effectiveness and productivity of an agency or an activity. One purpose of this is to check that activities are being carried out in a functional, systematic and economically satisfactory way. Effectiveness auditing should also give rise to ideas and incentives for improvements at all levels of the central administration. The ultimate goal of the audit is to promote effectiveness in public administration."⁵⁵¹

There are clearly a number of similarities between the intentions behind the various approaches outlined above. Some of the difficulties (obtaining the necessary funds and staffing resources to carry out appropriate audits) and deficiencies (a tendency to concentrate on economy and efficiency to the detriment of effectiveness, and allegations of political interference) are also common to several of the examples. The next section considers these alleged deficiencies in greater detail.

10.84 Deficiencies of VFM Audits

Sherer⁵⁵² has drawn attention to both conceptual and practical problems in respect of VFM audits of local authorities. The component parts of economy, efficiency and effectiveness are interrelated with effectiveness the most important (in Sherer's view). Effectiveness is also the most difficult attribute to measure because of (1) the problem of finding suitable measures with which to evaluate the service under examination and (2) the problem of commenting on the political decisions made by members of elected bodies, for example local councils. Sherer has noted that in response to these difficulties auditors tend to adopt narrow definitions of effectiveness which appear to be capable of verification, and not broader definitions which impact on the final objectives of local authorities such as environmental health or the educational attainment of pupils:

⁵⁵¹. *ibid.*, p.124.

⁵⁵². Sherer, M.J., "The Ideology of Efficiency: A Critical Evaluation of Value for Money Auditing", Discussion Paper Series No.241 (Department of Economics, University of Essex, 1984).

"Indeed it may be thought that measures such as these can be interpreted as efficiency rather than effectiveness measures; at best they attempt only to quantify the intermediate outputs of a service."⁵⁵³

Sherer has also objected to auditing the other attributes of economy and efficiency because the processes of VFM audits are dominated by the ideology of profit:

"The use of accounting technologies, including VFM audits for local authorities, introduces a 'bottom line' measure, equivalent to (and sometimes identical with) the net profit figure found in private sector financial accounts."⁵⁵⁴

This has an effect on employment policies and the willingness to provide public services despite the problematic nature of the profit determinations. McSweeney and Sherer have made similar observations:

"Many of the reports published thus far demonstrate an asymmetry in the recommendations of VFM auditors. A great deal of attention is given to possible cost savings that can be made achieving the same or lower levels of service quality, if best management practice is adopted. In contrast much less attention is given to an evaluation of the effectiveness of local authority activities ..."⁵⁵⁵

In the remainder of their paper McSweeney and Sherer reiterate many of the arguments against VFM audits; the difficulty of setting standards, a tendency to concentrate on economy and efficiency and not effectiveness as though these were separable, the fear that political and economic concerns are dominating technical concerns in the implementation of VFM.

Gray, Owen and Maunders have noted that the VFM audit is:

553. *ibid.*, p.8.

554. *ibid.*, p.18.

555. McSweeney, B. and Sherer, M.J., "Value for Money Auditing: Some Observations on its origins and theory", a paper presented at the Interdisciplinary Perspectives on Accounting Conference (Manchester, 1985) p.3.

"... unlikely to provide a significant improvement in public accountability. Its focus on spending - generally unrelated to performance measures - might improve the efficiency of services from local authorities etc., but appears to have little to do with the quality of service and virtually nothing to do with the broader social issues of the community, the labour force, and general accountability."⁵⁵⁶

The problems inherent in the term 'Value for Money' have been brought out by Jones and Pendlebury:

"Strictly speaking it relates output (value) to input (money) and is therefore another way of saying efficiency."⁵⁵⁷

It is concluded that although the concept of VFM audit is much closer to the concept of SEA than the other monitoring and controlling systems examined earlier in the chapter, the reality of implementation means that the distance is quite wide. SEA is envisaged as a system which monitors both inputs and outputs in financial and non-financial modes. The implementation of VFM, as reported in the literature, suggests that in practice a greater proportion of attention is given to the financial measurements and that effectiveness is not given the same degree of attention as economy and efficiency.

10.90 Chapter Summary

This chapter has expanded the arguments used in support of socio-economic accounting by examining areas of measurement and disclosure which presently employ, or could employ, non-traditional techniques. Cost-benefit analysis and planned programmed budgeting systems have been examined and found wanting. The need for the conversion of costs and benefits into financial terms and subsequent discounting to present monetary values, means that CBA is dependent upon a number of assumptions. These include which flows to include and the discount rate to be used. There is also the problem of data manipulation to suit decisions which have already been made. Planned

⁵⁵⁶. Gray, Owen and Maunders, op.cit., p.155.

⁵⁵⁷. Jones, R. and Pendlebury, M., Public Sector Accounting (Pitman, London, 1984) p.10.

programmed budgeting systems are also financially based and require agreement on objectives. Proponents of PPBS have made exaggerated claims and applications have been less than fully successful as a result of the defence based model, which did not transfer easily to other fields, and the difficulty of reaching agreement on institutional objectives. Furthermore, PPBS does not provide for an examination of input-output relationships. Zero based budgeting was another approach, but the cost of implementation together with the behavioural problems of uncertainty for individual departmental staff, have not encouraged widespread application. ZBB was concerned with budgeting for inputs and not with measuring the outputs achieved.

Socio-economic accounting has been placed into a different category to CBA and PPBS in this study, since it used Level I and II measurements as well as financial measures. SEA may be regarded as a form of social audit of publicly funded programmes, and prototype models may be found in the educational evaluation literature (the Stake model) for example; the institutional performance evaluation indicators produced by Sizer and others; and the system developed by the State of Tennessee for evaluating the performance of the entire state higher education system. Value for money auditing was examined because this approach to programme evaluation appeared to be very close to the concept of SEA. However, a study of the literature revealed that in practice VFM often stops short of the end result envisaged for SEA. There is some concern that VFM is not leading to a more socially relevant accounting.

The area of government funded programmes is seen as a fertile ground for evaluation models, using both financial and non-financial measurements and criteria, aimed at promoting efficiency and effectiveness. The use of models developed by other disciplines is not considered a problem, since these would be modified by experience and adapted to the particular nature of the problem under examination. The importance of an earlier reference to partial performance indicators should not be underestimated. To a large extent all measurements result in partial indicators of performance. This applies to financial accounting reports as well as to less traditional forms of reporting. The socio-economic accounting discussed in this chapter is an attempt to convert unreported performance to a partial reporting of performance by publicly funded organisations, as such it would be a major advance in the overall usefulness of accounting to society thus leading to a more socially relevant accounting.

CHAPTER ELEVEN11.00 SOCIAL INDICATORS ACCOUNTING (SIA)11.10 Introduction

This chapter is concerned with the review of a further division of the social accounting field. Socio-economic accounting (namely the use of accountants and accounting techniques to improve project selection, operation and control, and output evaluation in the public sector) is at a micro level. The corresponding macro approach is referred to as social indicators accounting. Social indicators accounting may be applied where the stated objectives of a social system (expressed via the political process) are to have a healthier, wealthier and better educated population, to be achieved by a series of public programmes (each perhaps influenced by socio-economic accounting), where progress towards these objectives ought to be capable of measurement. These measurements may vary in scope and time scale as outlined below, in particular there may be a distinction between national, regional and local measures.

Recent social indicators research may be traced back at least as far as the work of Bauer⁵⁵⁸ and has generated a substantial volume of published material, only a small part of which may be regarded as belonging to the accounting area. Glatzer provides an overview of the development of social indicators⁵⁵⁹ whilst Parke and Peterson discuss the development of social indicators in the United States.⁵⁶⁰ The remainder of this chapter on social indicators accounting will be devoted to an examination of the work of Terleckyj as an example of long term social indicators accounting at the national level,⁵⁶¹ reviews of the contributions of Glatzer, and Parke and

558. Bauer, R.A., (Ed), Social Indicators (MIT Press, Cambridge, 1966).

559. Glatzer, W., "An Overview of the International Development in Macro Social Indicators", Accounting, Organizations and Society, Vol.6 No.3 (1981) pp.219-234.

560. Parke, R. and Peterson, J.L., "Indicators of Change: Developments in the United States of America, Accounting, Organizations and Society, Vol.6 No.3 (1981) pp.235-246.

561. Terleckyj, N.E., "Measuring Progress Towards Social Goals: Some Possibilities at National and Local Levels", Management Science (August 1970) pp.765-778.

Peterson and consideration of a recent paper by Ramanathan and Schreuder.⁵⁶²

11.20 Goal Indicators and Data Deficiency

11.21 Goal Indicators

In several important papers Terleckyj has addressed the problems of measuring social change directed towards specific goals. The 1970 paper is concerned with measurement and the data needed for goals analysis. Terleckyj provided a series of hypothesised national goals which were to be attained over a ten year period. To achieve these goals a number of activities would have to be undertaken and these in turn should be monitored. It is the monitoring process, as well as the goal performance, with which SIA is concerned. In respect of goal analysis and the monitoring of activities Terleckyj noted:

"Two kinds of data are needed for this analysis:

- (1) the data defining and measuring the output indicators, and
- (2) the much more voluminous and complex data which would permit estimation of the effects of activities on output indicators and of the cost of the activities".⁵⁶³

The goal output indicators developed by Terleckyj are given in Exhibit 71 below. The areas shown are concerned with nationally determined goals in the fields of domestic concerns that are relevant to a ten year programme. The process by which the goals are chosen is not within the control of the SIA system, but the majority of the areas of goal concern should be those acceptable to most people and arise out of the political process. However, the goal output indicators may be more difficult to define. This is accepted by Terleckyj:

"Identification of areas of goal concerns and the corresponding selection of output indicators are neither absolute nor immutable. The selections should vary with their purpose, and the time when they are made."⁵⁶⁴

⁵⁶². Ramanathan, K.V. and Schreuder, H., "The Case for Corporate Social Reporting: A Macro-Perspective", a paper presented at the Workshop on Accounting in a Changing Social and Political Environment, Brussels (December 1982).

⁵⁶³. Terleckyj, op.cit., p.766.

⁵⁶⁴. ibid., p.771.

EXHIBIT 71**A Summary List of Areas of National Goals Concern and the Corresponding Principal Indicators of Goals Output**

Area of Goals Concern		Principal Indicators of Goals Output
I	Freedom, Justice & Harmony	- Not yet defined -
II	Health & Safety	
	Health	Mean life expectancy at birth
	Public Safety	Number of persons with chronic disability conditions
		Violent crime rate
III	Education, Skills & Income	
	Basic Schooling	Index of average achievement and mathematics, grade 12
	Advanced Learning	Percent of age group completing college
	Skills	Average earnings
		Number of persons outside mainstream of the labour force
	Adequacy & Continuity of Income	Number of persons below poverty standard
		Number of persons in near-poverty conditions
		Number of persons with permanent losses in levels of living over 30%
IV	Human Habitat	
	Homes	Proportion of persons living in inadequate housing
	Neighbourhoods	Proportion of persons living in satisfactory neighbourhoods
	Access	Index of cost of travel & transportation
	Quality of Environment	Percent of persons exposed to bothersome pollution
	Recreation	Percent of persons regularly taking part in recreation
V	Finer Things	
	Beauty of Nature	Number of areas of preservation of beauty
	Sciences	Number of scientists active in basic science
	Arts	Number of active artists
	Leisure	Average time free from work and chores
VI	Economic Base	GNP

Note - These categorizations are being used in the ongoing study and are subject to change. The choice of indicators describing comparative conditions of people between the absolute number and proportion of population was based on judgement regarding which formulation corresponds better to the actual goals concern.

Adapted from Terleckyj (1970) p.770

11.22 Data Deficiency

When considering the availability of data in support of the principal indicators of goals output shown in Exhibit 71, Terleckyj stated that the goals analysis was not supported by the statistical information system available at that time. The general impressions are summarised in Exhibit 72. The view expressed by Terleckyj is in contrast to the review of data sources given by Glatzer. The conflict can be resolved in terms of the availability of data to enable an accounting-type examination of goals and degrees of achievement.

The principal indicators shown in Exhibit 71 are assisted by auxiliary indicators, which clarify the significance of changes in the principal indicators and also help to explain the reasons for the changes. In addition, Terleckyj noted that all indicators have differing degrees of usefulness at national and local levels.

EXHIBIT 72

Checklist for Selected Goals oriented Output Indicator Statistics

Goal Output Indicator	Existence of National Level Statistic	Local Area Availability	Quality of Analytical Information	Principal Source of Federal Statistics
Health and Safety				
Life expectancy	yes	yes	Good	National Centre of Health Statistics
Disability	yes	yes	Fair	National Centre of Health Statistics
Violent Crime	yes -	yes -	Fair	Federal Bureau of Investigation
Education, Skills & Income				
Education Index	no	no	Fair	Office of Education
College Completion	yes	yes	Fair	Office of Education
Ability to Earn	no	no	Fair	Manpower Administration
Average Earnings	yes	yes	Fair	Office of Business Economics
Number of Poor	yes	yes -	Good	Social Security Administration
Number of Near Poor	yes	yes -	Good	Social Security Administration
Number with Income Loss	no	no	Fair	Social Security Administration
Human Habitat:				
Houses	yes -	yes -	Poor	Bureau of the Census
Neighbourhoods	no	no +	Poor	Bureau of the Census
Access	no	no +	Fair	Bureau of Labour Statistics and Interstate Commerce Commission
Pollution	no	no	Poor	Departments of the Interior and Health Education and Welfare
Recreation	no	no +	Poor	Bureau of Outdoor Recreation
Finer Things:				
Science	yes	yes	Fair	National Science Foundation
Art	no	no	Poor	Nat l. Foundation on Arts and Humaniti
Nature	no	no	Poor	Department of the Interior
Leisure	no	no	Poor	None
Economic Base:				
GNP or local indicator	yes	yes	Good	Office of Business Economics

In concluding his paper, Terleckyj referred to five specific points:

- "i) Articulation of social goals is important for ascertaining whether they are being reached, and even for reaching them.
- ii) The existing statistical systems are not geared to articulating and reporting social goals, either nationally or locally.

- iii) Development of simple systems which would reflect progress towards some of the generally accepted goals is feasible locally as well as nationally.
- iv) If such systems are to serve as aides in policy information or as vehicles of information for the general public, they have to be simple and clear-cut.
- v) Development of larger systems, encompassing a larger variety of indicators and aiming at consistency or compatibility of data systems developed and used by different policy units, depends on progress in basic work that remains to be done".⁵⁶⁵

The papers reviewed above are important contributions to an understanding of SIA and the extent of potential involvement for social accountants. There are a number of aspects to the logical sequence described by Terleckyj; determination of goals, selection of principal and auxiliary output indicators and the organisation of data collection and aggregation, where accounting principles and techniques may be employed. The involvement of accountants in social indicators research needs to be selective, because the area covered by SIA is only a part of the total area devoted to social indicators research. This is evident from an examination of the literature and is confirmed by the particular use of 'social accounting' by Parke and Peterson.

11.30 Macro-Social Indicators - An International Overview

Glatzer has provided an extensive review of the work on social indicators in several countries. In contrast to Terleckyj, who referred to data deficiency, Glatzer has compiled a list of references which amounts to almost an oversupply of data. However, relatively little of the data is intended for use by accountants, although some aspects of the social indicators movement are probably appropriate for exploration by accountants seeking to develop a more socially relevant accounting. Glatzer stated that:

⁵⁶⁵. *ibid.*, pp.775-776.

"The dominating interest of social indicators research is social reporting, involving the provision of descriptive, normative, evaluative and explanatory knowledge about societal problems and developments for social guidance."⁵⁶⁶

and progress may be distinguished in three areas. These are, measurement of quality of life and welfare, the monitoring of social change and socio-economic development and the conduct of evaluations and forecasts.⁵⁶⁷

Measurement of quality of life and welfare developments requires agreement on a number of normative positions. The subjective nature of this area of study suggests that there is not a major role for any form of accounting, whether dealing with the quality of life and welfare of the whole population or of specific groups of disadvantaged persons. The area of social indicators research which is concerned with monitoring social change and socio-economic development might provide an opportunity for the application of accounting techniques. However, Glatzer reports that social indicators are used without a goal or output orientation, which would make the application of achievement measures very difficult.

The most important area of social indicators research for accountants would appear to be the work on forecasting and evaluating the results of social policies. The effect of public policy decisions on the social fabric of the country should be evaluated;

"... evaluation research is interested in the ways in which specific amounts of public expenditure (the 'input') contribute, through the additional provision of goods and services (the 'output') to the achievement of objectives and goals (the 'outcome')."⁵⁶⁸

This aspect of social indicators research has also been commented on by Sheldon and Parke in a manner which suggests that they do not want to see too much work devoted to this form:

⁵⁶⁶. Glatzer, op.cit., p.219.

⁵⁶⁷. *ibid.*, p.220.

⁵⁶⁸. *ibid.*, p.226.

"One view sees social indicators as providing a basis for the evaluation of government programs. However, the development of evaluation research, particularly social experimentation, of social research as a distinct type has attenuated the expectation that social indicators are to serve the purpose of program evaluation."⁵⁶⁹

Attention to this area would, presumably, draw resources away from another major area, that of measuring social change itself without any reference to goals.

Glatzer listed the characteristics which he discerned as belonging to social indicators research in the following way:

"An empirical and quantitative interest rather than a purely theoretical interest in societal phenomena; a tendency to investigate problems which are of interest within the context of a broad political perspective rather than a purely scientific one; a readiness for interdisciplinary work on problems which transcend the traditional boundaries of scientific disciplines;

A concern for communicative and cooperative relationship between social science and public policy, the administration of government and public opinion."⁵⁷⁰

Interestingly, Glatzer concluded that because social indicators research is very diverse it is unlikely to continue as an independent field, but is most likely to be divided and become part of diverse research traditions. There is, therefore, the possibility that the parts of social indicators research which are concerned with the setting of goals and the measurement of their achievement through social policies, could become part of a social accounting development.

⁵⁶⁹. Sheldon, E.G. and Parke, R., "Social Indicators", Science Vol.188 (May 1975) p.695.

⁵⁷⁰. Glatzer, op.cit., p.228.

11.40 The Development of Change Indicators

Parke and Peterson noted that the term 'social indicators' became widely used after the work of Bauer and that a frequently used definition is that of the U.S. Department of Health Education and Welfare. Social indicators were described by the Department as;

"... in all cases ... direct measure(s) of welfare..."⁵⁷¹

This description is not considered satisfactory by Parke and Peterson because it does;

"... not include many of the variables central to an understanding of changes taking place in the society ..." ⁵⁷²

There is a major difference of approach between those researchers of social indicators, who would confine their attention to direct measures as far as possible, and the users of those indicators. The users would accept data obtained indirectly and by inference, if they cannot obtain them directly. SIA is usually concerned with direct measures of social activity.

The Parke and Peterson paper is divided into three sections: social measurement, social accounting and social reporting. In the area of social measurement, at a macro social indicators level, researchers are attempting to develop a series of quantitative measures of social change since;

"... a prerequisite to the advancement of social indicators, however defined, is the quantitative measurement of social change. Such measures make possible empirical findings about current social conditions and social processes." ⁵⁷³

The specific examples of categories in which data collection is proceeding are; social mobility, educational achievement, victimisation by crime and the subjective well-being of individual respondents. However, the authors comment:

⁵⁷¹. Parke and Peterson, op.cit., p.235.

⁵⁷². ibid., p.236.

⁵⁷³. ibid., p.236.

"Impressive as these data collection efforts are, they do not by themselves produce the indicators that are needed. For this, we need improvement of instrumentation, improvement of access to data, and assessment of the value of the data as a measure of phenomena of interest".⁵⁷⁴

From an examination of their section on the subject it is evident that Parke and Peterson use the term social accounting in a different context from the way the same term is used in this chapter and in much of the accounting literature. They refer to four areas; an expansion of the national income accounts to include externalities such as the value of household production as a part of Gross National Product; time based accounts, a concept of social accounts incorporating time as an expenditure; National Goals Accounting including the work of Terleckyj; and finally demographic accounts. It appears that only the work of Terleckyj is really a study of macro measures using accounting techniques, and it is work of this type which fits into the framework described in chapter six of this thesis.

There has been, according to Parke and Peterson, little inter-relationship between the social measurement and social accounting research work;

"... the interests of those engaged in social measurement and those working in social accounting have led to little joint work..."⁵⁷⁵

Their section on social reporting refers to notable reports on social indicators which have been published in the United States since 1933. The discussion included the manner in which findings are communicated to a wider public. The authors noted that:

⁵⁷⁴. *ibid.*, p.238.

⁵⁷⁵. *ibid.*, p.241.

"Significant improvements in social reporting, beyond those already in evidence, must depend first of all on improvements in the indicators measures themselves and this will be accomplished primarily by social scientists".⁵⁷⁶

Parke and Peterson concluded that careful measurement is needed, supported by appropriate instruments and processing, together with suitable reporting.

It is evident, from an examination of this and other survey articles, that only a small part of the literature of social indicators research is relevant to a study of social indicators accounting as the term is used here. Furthermore, a lengthy time period for measurement may be involved together with a regional dimension or scale. All of these factors contribute towards making this an area which is, apparently, of less interest to accounting researchers than those considered in the earlier chapters. However, the potential fragmentation of the social indicators research area referred to by Glatzer cannot be ignored.

11.50 Linking Macro and Micro Indicators

The two areas of social responsibility accounting and social indicators accounting are apparently unrelated, in that SRA refers to short-term private sector disclosures and SIA to long-term goals and supporting social measurements of a macro (public) nature. Ramanathan and Schreuder have attempted to link the two areas; their basic thesis is that if the indicators used at both macro and micro levels were the same, a relationship between the two could be determined. A suitable example might be pollution of the atmosphere by industrial activity. If the total amount of pollution was measurable in physical terms, together with the estimated public cost of dealing with the problems caused by these discharges, then the individual costs would be determined by the relationship between micro indicators and macro indicators for the same phenomenon.

The pollution example is used because the authors were concerned with externalities which are frequently excluded from SRA disclosures and were discussed in chapter nine as the basis for total impact accounting. The

⁵⁷⁶. *ibid.*, p.243.

subject of externalities was also used as a means of exemplifying the philosophical differences between accounting academics:

"Any proposed method of Corporate Social Accounting and Reporting must deal with an accounting of externalities of the private sector that the public sector must deal with. Typically, the public sector's response includes, on the one hand, regulation and specific taxes/subsidies designed to influence directly the private sector decision processes and, on the other hand, public sector managed programs designed "to deal with" private sector externalities, financed through general taxation. Therefore, the objective of CSAR from a macro-perspective is to develop shadow (transfer) prices to charge the private sector for costs incurred in the public sector to manage and resolve private sector externalities."⁵⁷⁷

The determination of transfer costs and shadow prices is obviously difficult, involving identification and measurement problems, as well as a series of assumptions about the role of government, the rationality of government action, the desirability of the complete abolition of discharges to be obtained by regulation and the time lags involved between the identification of externalities and their reduction/elimination. It is doubtful that this is a complete listing of difficulties. To be effective in an allocation procedure the micro level indicators must be compatible with those macro level indicators used by government authorities. In effect, the micro or firm level indicators would need to be specified to some extent and not developed on an ad hoc basis as appears to be the case at the present time. The dilemma of regulation and ad hoc development is recognised:

"There exists already a wealth of literature dealing with corporate social indicators and some measure of experience in reporting them. Instead of putting the lid on these on the basis of some normative myopia there is a need to continue with innovative effects of CSAR. Perhaps the time has come to analyse the contemporary state of the art in this area with a view to developing some standards, eg, choice of indicators of

⁵⁷⁷. Ramanathan and Schreuder, op.cit., p.19.

externalities applicable to a given industry, format for reporting, time span covered, and the intended users".⁵⁷⁸

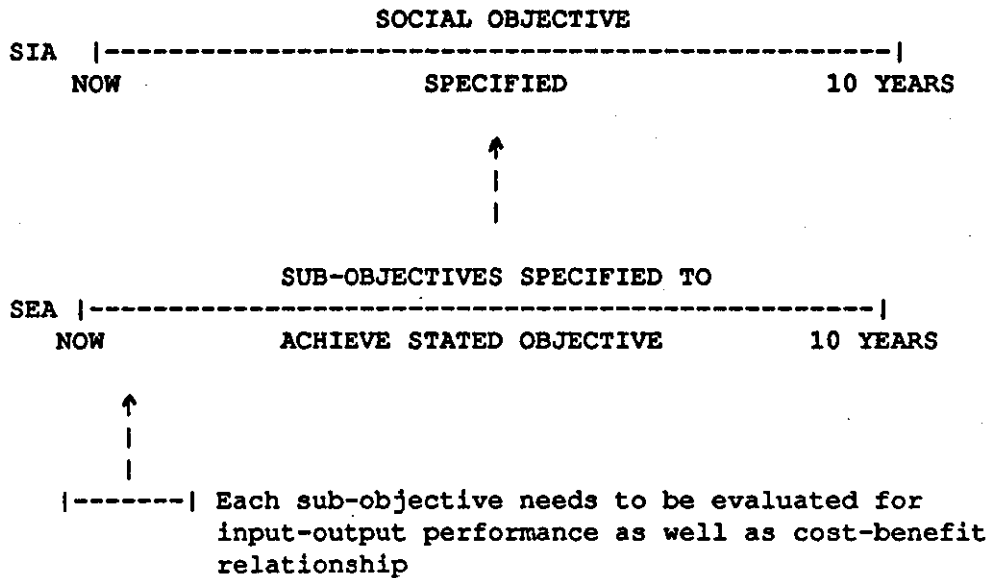
Ramanathan and Schreuder noted the development of social indicators at the macro level since 1966 and argued for a joint approach to the development of both macro and micro indicators. This is particularly important since there are few linkages between the two levels. The tension between fostering innovative reporting at the micro level (SRA) and the development of standards and joint approaches is not resolved in their paper.

Ramanathan and Schreuder have alerted us to one of the points of contact between different levels and forms of social accounting. However, it must be noted that social indicators accounting and social responsibility accounting are not readily compatible. The SIA is inherently long-term and macro (government) led whereas the SRA is short term and on a micro scale. Furthermore, the form of inter-relationship envisaged by the authors would be seen by many corporate managers as coercive, costly and likely to stifle the development of SRA by enterprising firms. A more feasible linking of macro and micro indicators might be found with socio-economic accounting and SIA because both are related to the public sector. In formulating area objectives government agencies will be guided by the political expressions of the population (in a democratic political system this should take place). The specific programmes put into place to solve problems or to maintain societal structures should be controlled by systems which are sensitive to input-output relationships as well as financial costs and benefits (SEA). There should be a logical relationship between the two levels.

A suitable example might be education which features in both of the schedules taken from Terleckyj. National education programmes which set goals for long-term achievements have to be supported by shorter term goals (interim achievement points) which may be monitored by the use of socio-economic accounting and institutional performance evaluation. The link between the two levels is explored in Exhibit 73.

⁵⁷⁸. *ibid.*, p.25.

EXHIBIT 73
Relating SEA and SIA



It is suggested that this relationship (between SEA and SIA) would be easier to establish than one between SRA and SIA. However, in a market economy with individual decision making, many of the objectives specified for the society via SIA will be attained through coincidence rather than programmes of planned change.

The paper concludes by repeating that CSAR is aimed at supporting the market processes and not in eroding them:

"Only if market-based decisions take non-market factors into account will these factors not be handled outside of the market system".⁵⁷⁹

and

"Finally, we may point toward one area of agreement between proponents and opponents of CSAR, namely the finding that the current state-of-the art has not yet moved sufficiently from the phase of initial individual experiments to the stage of operationalisation and testing of more general frameworks. We feel the social indicators approach which integrates micro - and macro -perspectives is a promising avenue of research to pursue for this purpose, and we shall direct our future research efforts accordingly".⁵⁸⁰

⁵⁷⁹. *ibid.*, p.28.

⁵⁸⁰. *ibid.*, p.29.

11.60 Chapter Summary

It is evident that SIA means many things to many people, possibly to a greater extent than the other categories or divisions of social accounting with which this thesis has been concerned so far. The literature on social indicators does not belong primarily or even mainly to social accounting but to sociology and welfare economics. Indeed, one point made within the paper by Parke and Peterson is that in their scheme, only one-quarter of 'social accounting' corresponds to the use of social indicators accounting in this chapter.

The paper by Terleckyj illustrated clearly both the promise and the problems of social indicators accounting. The need for better data collection and processing systems is universal, but the paucity of non-financial information, as a basis for some of the indicators which government agencies might want to use, was seen as a serious problem. The case for the involvement of accountants and accounting procedures in the development of social indicators (i.e. the basis of SIA) is less easily established than the arguments for the forms of social accounting set out in chapters six to ten.

Ramanathan and Schreuder have set out an interesting relationship between macro and micro social indicators which is designed to overcome the problems of externalities. The issues they have raised need further elaboration before any operational format can be developed. One of the problems of implementation may be the unresolved conflict between the innovative development of SRA and the use of standards to ensure uniformity among micro social indicators. A more logical relationship may eventually be established between socio-economic accounting and social indicators accounting because both are dealing with public sector activities. A linking of some of the input-output measures suggested for SEA in chapter nine with the macro-scale objectives and measures advocated by those interested in SIA is possible. However, both areas are currently in their infancy. Glatzer has suggested that social indicators research cannot survive as an independent research area. If the fragmentation which he expects comes about, that part of the area which deals with goals, objectives, and achievements of government social policy may form the basis of social indicators accounting.

CHAPTER TWELVE

12.00 SOCIETAL ACCOUNTING

12.10 Introduction

A number of writers in the area of social accounting have adopted a larger dimension than any of the others considered previously in this work. This wider view is termed "Societal Accounting" and takes a 'global' view of the relationship of society and accounting, tempered by the recognition that any accounting system must be related to the society in which it exists, and is therefore nationally or culturally dependent.

12.20 The Global View: Mattessich

One theorist who has attempted to construct an integrated overarching theory of accounting is Mattessich. In an early work Mattessich referred to the search for a general theory of accountancy as follows;

"... the next step would be to bring all existing and imaginable accounting systems to a common denominator. This process would mean developing a general basis valid for all these systems, out of which the features and peculiarities of any individual system could be derived through the introduction of additional axioms and definitions".⁵⁸¹

The axiomatic foundation of accountancy, it was argued, underlies all those accounting systems shown in Exhibit 74 below. The scheme was viewed as incomplete since;

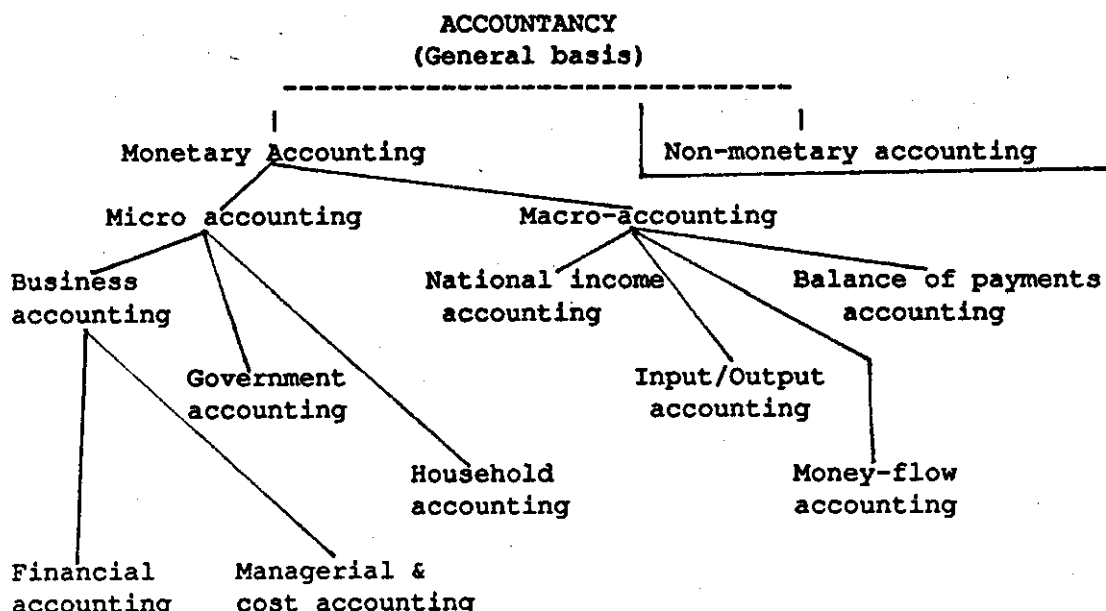
"... even the possibility of creating new accounting systems for specialised purposes can be expected".⁵⁸²

Presumably this statement refers to the area designated "Non-Monetary Accounting" which corresponds to the social responsibility accounting and other disclosures already discussed. In the context of Exhibit 74 Mattessich acknowledged the incomplete nature of his model at the same time as he indicated the directions in which accounting may develop.

⁵⁸¹. Mattessich, R., "Towards a General and Axiomatic Foundation of Accountancy", Accounting Research, No.8 (October 1957) pp.328-355.

⁵⁸². *ibid.*, p.331.

EXHIBIT 74
Graph Showing Accounting Systems and Their Relations



Adopted from Mattessich op.cit., 1957, p.331.

In a much later work Mattessich continued the task of developing a general theory of accounting.⁵⁸³ The spread of accounting research was acknowledged together with the potential dangers inherent in this development:

"If the many fugitive parts and pieces of our discipline can be held together and integrated, accounting as an academic discipline will survive, if not it might dissolve, and be absorbed by neighbouring fields".⁵⁸⁴

This warning may be applied to the constituent parts of social accounting in exactly the same way.

Mattessich concluded with a reference to the need for developing and testing alternative theoretical structures by reference to empirical verification:

⁵⁸³. Mattessich, R., "Methodological Preconditions and Problems of a General Theory of Accounting", The Accounting Review (July 1972) pp.469-487.

⁵⁸⁴. *ibid.*, p.482.

"This testing of a general accounting theory by way of the empirical verification or reputation of its interpreted systems, seems to me the only way of conforming to the requirements of an empirical discipline".⁵⁸⁵

12.30 The Global View: Gambling

The global view has also been expressed by Gambling:

"What is needed is nothing less than the redefinition or clarification of 'accounting' as the data base for all aspects of social measurement and control".⁵⁸⁶

Recognition of the cultural basis of accounting may be seen in the following statement by the same writer:

"Even between societies whose values are not dissimilar, it is possible to find basically different approaches to income recognition; primarily between those who are prepared to (take) account of managerial attentions (as in Germany and the Netherlands) and those who seek some internal accounting standards (as in Great Britain and the United States).⁵⁸⁷

Gandhi has expressed similar views:

"On a larger scale, accounting seeks to clarify for the society as a whole a certain dimension of societal properties which are under the process of decision-making".⁵⁸⁸

Gambling has represented the components of societal accounting by means of the diagrams shown as Exhibits 75 and 76. The structure in Exhibit 75 shows the possible interfaces between transferable economic wealth and cultural wealth for a western capitalist society. The structure in Exhibit 76 performs the same function for a planned economy.

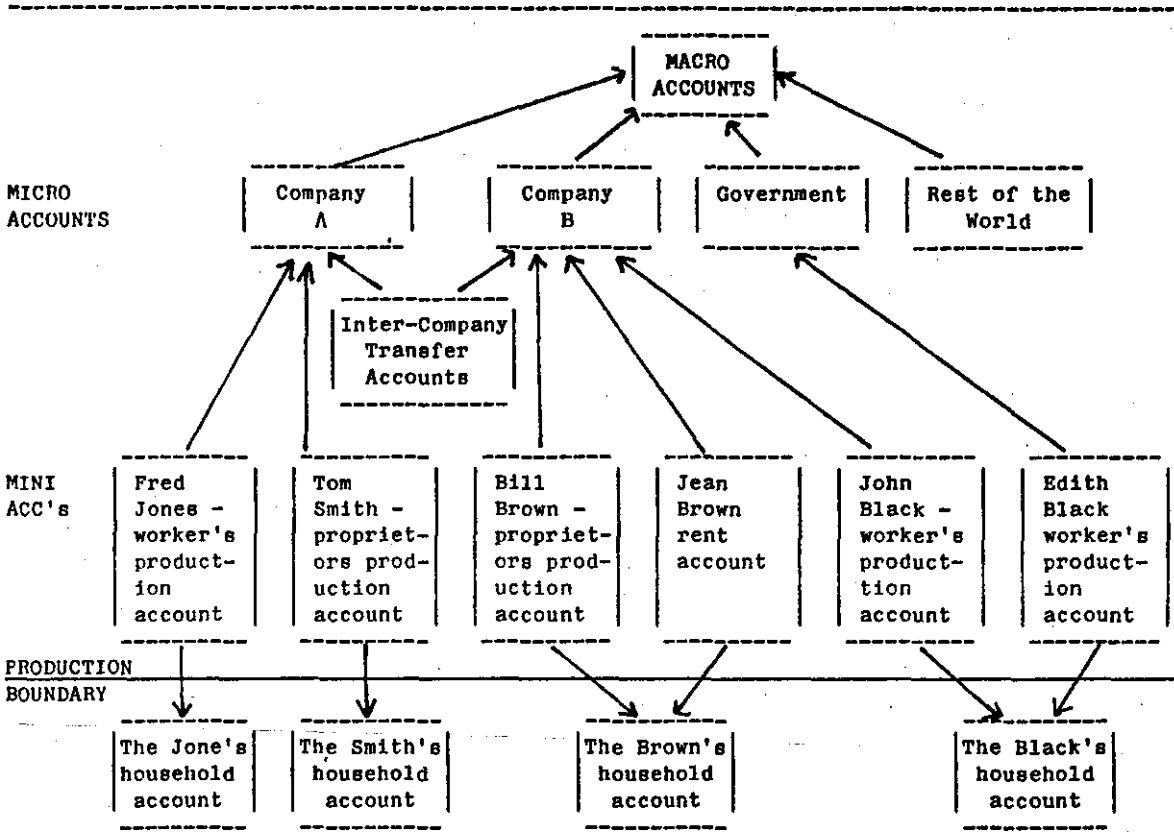
585. *ibid.*, p.486.

586. Gambling, T.E., Societal Accounting (Allen & Unwin, London, 1974) p.9.

587. *loc.cit.*

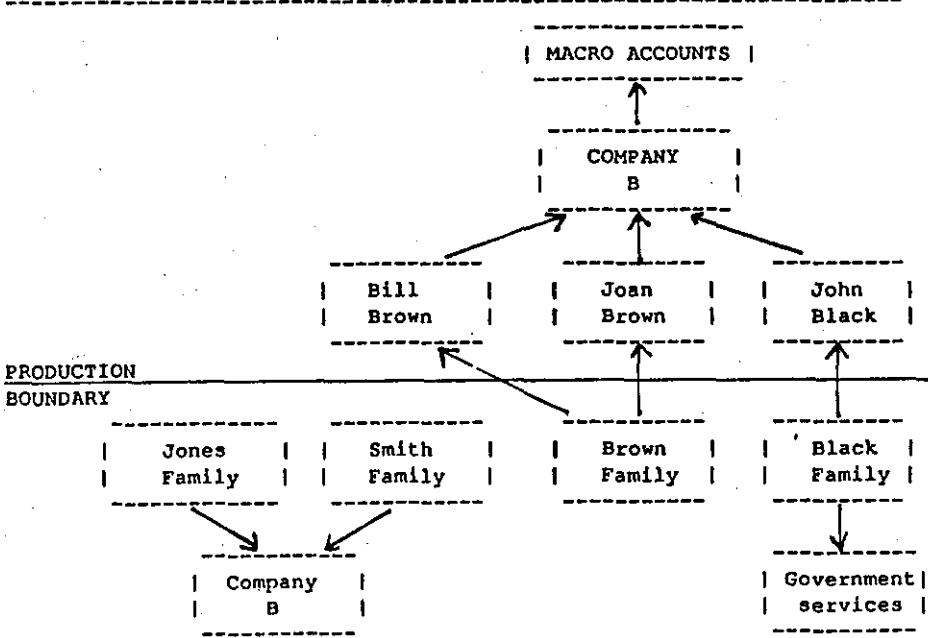
588. Gandhi, N.M., "The Emergence of the Post-Industrial Society and the Future of the Accounting Function", The Journal of Management Studies (October 1976) p.199.

EXHIBIT 75
A Representation of Societal Accounting
(Capitalist Economy)



Source: Gambling, op.cit., p.179.

EXHIBIT 76
The Interaction of Domestic and Other Accounts
(Planned Economy)



Source: Gambling, op.cit., p.180.

Gambling discussed the need for an overarching theory of accounting, and some of the reasons why we do not have one at the present time:

"Just as the present day aversion to 'overarching theories' prevents the useful further development of social indicators the absence of such theories provides a justification for continuing to use the self-financing corporation. Any thinking man can see that a firm's activities have social costs and social effects that feed back to the firm itself: It is very hard to present absolutely convincing estimates of what those effects might be precisely because we do not have theories about how the whole society works... If one did attach credence to any one overarching theory, one could then proceed to produce a comprehensive taxonomy of the variables needed to describe the issues facing society, and so produce accounting statements that would tell us more clearly how existing institutions were supposed to be affecting that society".⁵⁸⁹

Gambling illustrates his position by citing one taxonomy, which has been put forward by Forrester to demonstrate his theories of inter-looking feedback systems and systems dynamics. The system is partial in that it deals with only five level variables; population, natural resources, capital investment, capital investment in agriculture fraction and pollution. The resulting complex schema is reproduced as Exhibit 77. Clearly the accounting implications of any similarly complex taxonomy would be on an immense scale.

⁵⁸⁹. Gambling, op.cit., p.208.

EXHIBIT 77**Taxonomy of Inter-locking Feedback Systems and Systems Dynamics**

LEVELS	RATES	(FIRST GENERATION) AUXILIARIES	(FIRST GENERATION) CONSTANTS
1 Population	(a) Birthrate	(i) Birthrate from material) (standard of living)) multiplier)	A Birthrate normal
		(ii) Birthrate from food) multiplier)	
		(iii) Birthrate from crowding) multiplier)	
		(iv) Birthrate from pollution) multiplier)	
LEVELS	(b) Deathrate	(i) Deathrate from material) (standard of living))	B Deathrate normal
		(ii) Deathrate from food) multiplier)	
		(iii) Deathrate from crowding) multiplier)	
		(iv) Deathrate from pollution) multiplier)	
2 Natural resources	(a) Natural resources usage rate	(i) Natural resources from material (standard of living) multiplier	A Natural resources usage normal
3 Capital investment	(a) Capital investment generation	(i) Capital investment (from standard of living) multiplier	A Capital investment generation normal
	(b) Capital investment discard		A Capital investment discard normal
4 Capital investment in agriculture fraction	-	(i) Capital investment from quality (of life) ratio	A Capital investment in agriculture fraction adjustment time
		(ii) Capital fraction indicated by food ratio	
5 Pollution	(a) Pollution generation	(i) Pollution from capital (investment) multiplier	A Pollution normal
	(b) Pollution absorption	(ii) Pollution absorption time	

The foregoing portion of the schema shows the levels, the relevant rates and the auxiliaries and constants which feed directly into those rates. The general idea is clear; there is assumed to be some constant normal 'rate of flow' per head of population or other unit, which is accelerated or decelerated by one or more multipliers. These multipliers are not themselves constant, but vary in response to the value of further

auxilliarities measuring the material standard of living, the availability of food, the degree of crowding, the level of pollution and the level of capital investment. In turn, these secondary auxiliaries are also build up from constants and tertiary auxiliary measures:

TERTIARY AUXILIARY	CONSTANTS	FURTHER AUXILIARY SYSTEMS
(i) Material standard of living	A Effective capital investment ratio normal	(a) Effective capital investment ratio
(ii) (Availability of) food ratio	A Food normal B Food coefficient	(a) Food from crowding multipliers (b) Food potential from capital investment (c) Food from pollution multipliers
(iii) Crowding ratio	A Land area B Population density normal	
(iv) Pollution ratio	A Pollution standard	-
(v) Effective capital investment ratio	A Capital investment in agriculture fraction normal	(a) Natural resource extraction multipliers

These are the principal auxiliary measures that affect the flows in Forrester's system. However, there are further series of auxiliaries which give 'the quality of life':

(vi) Quality of life	A Quality of life standard	(a) Quality of life from material standard of living (b) Quality of life from crowding (c) Quality of life from pollution (d) Quality of life from food
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Source: Gambling, op.cit., pp.209-211.

The global nature of societal accounting means that all time scales and all forms of ownership and enterprise must be included in the model. This all-embracing theory is required to supplement the shorter term processes which are more easily defined, and which make up the first four categories of activities embraced by social accounting in this thesis. Thus, societal accounting may be regarded as an abstract intellectual phenomenon, rather than a concrete activity, and must be accepted as such. It should be noted

that societal accounting according to Gambling attempts to view the activities of the individual (mini), the firm (micro) and the public-enterprise or government activity (macro), within an interlocking framework, whereby the inter-relationships are noted and in some way measured.

The sheer magnitude of such a data collection and measurement/aggregation task ensures that we are examining a theoretical model in order to gain insight into the overall complexity of the accounting process. Gambling has acknowledged that the search for an understanding of the complexities of the model will need to be continued. The implications for what we normally regard as accounting will be far reaching.⁵⁹⁰

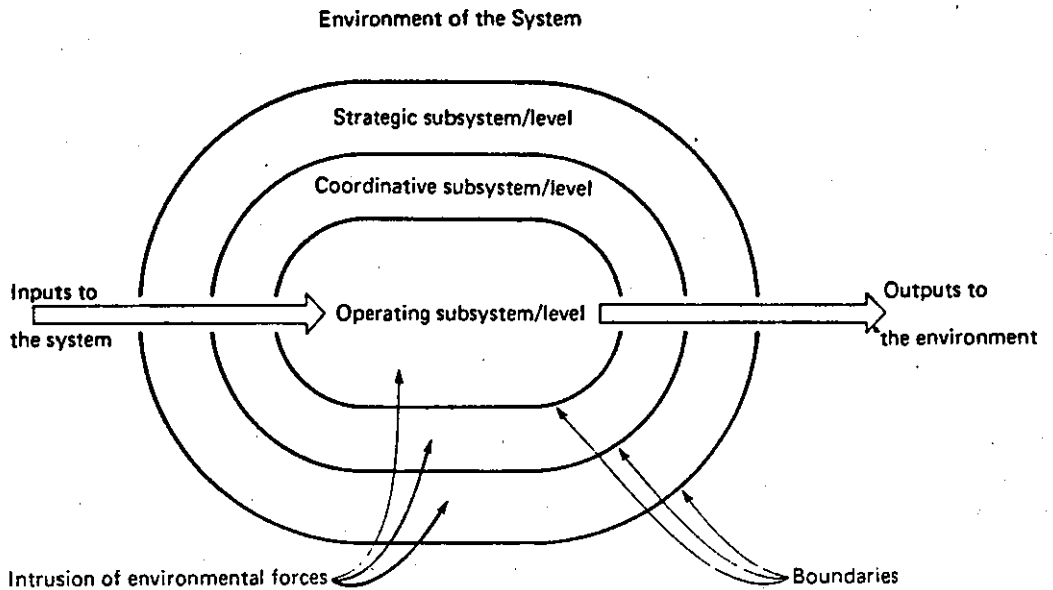
12.40 Accounting and Systems Theory

Gambling's interrelated macro-micro-mini accounting system appears to be strongly related to general systems theory⁵⁹¹ which views the world as a series of systems; supra-system, system, and sub-system. These systems are open in the societal accounting approach and interrelated across their boundaries. Each system may be seen as containing strategic, co-ordinating and operating sub-systems or levels, together with inputs and outputs across the organisation boundary, to the environment or to other sub-systems.

The role of internal (management) accounting may be seen as providing the information system for the co-ordinating and operating sub-systems. The specialist information systems for marketing management, capital budgeting, and financial management assist the strategic sub-system. The intrusion of environmental forces is best viewed in terms of external regulation by government agencies requiring information, or even specific action, at any or all of the sub-system levels. The role of internal accounting may be easily reconciled with Exhibit 78 below.

⁵⁹⁰. Gambling, T.E., "The Accountants' Guide to the Galaxy, including the Profession at the end of the Universe", Valedictory Lecture, University of Birmingham, May 1984 reproduced in Accounting, Organizations and Society Vol.10 No.4 (1985) pp.415-425.

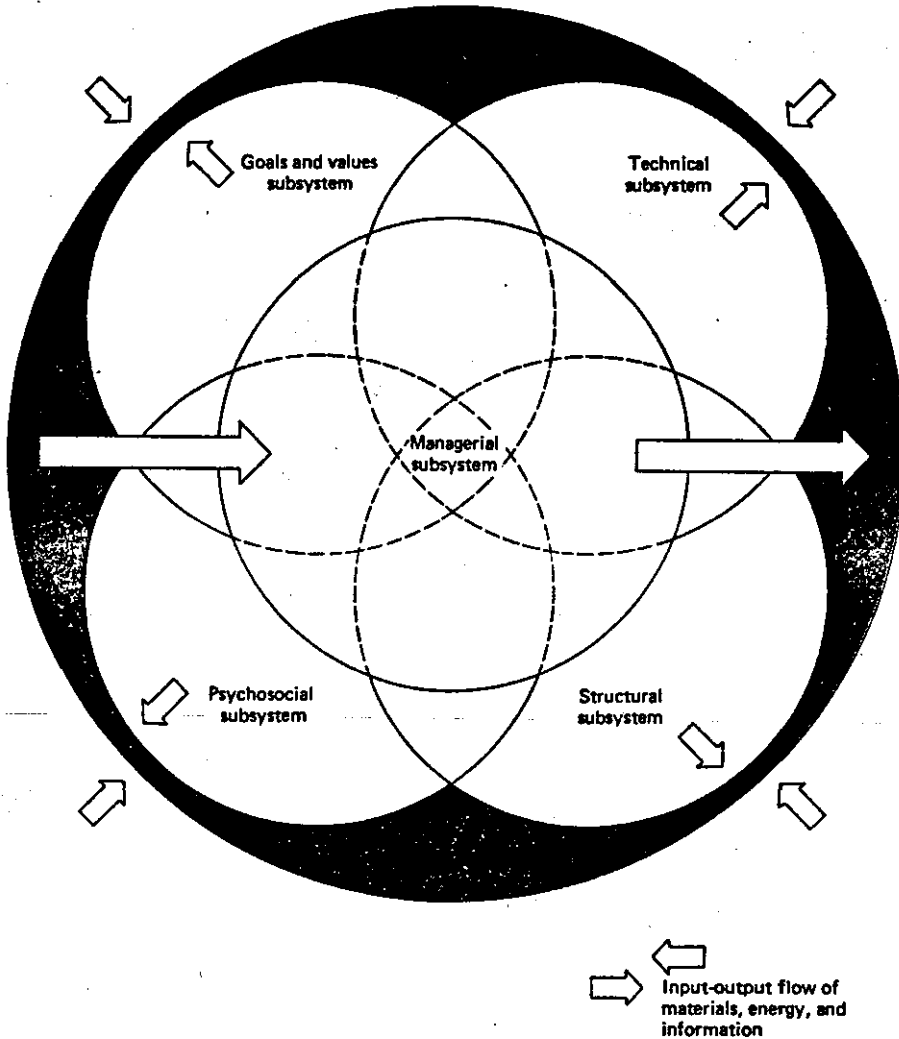
⁵⁹¹. Kast, F.E. and Rosenzweig, J.E., Organisation and Management: A Systems Approach, 2nd Ed. (McGraw Hill, N.Y., 1974).

EXHIBIT 78**The Organisation as a Composite of Strategic, Co-ordinative, and Operating Sub-Systems/Levels**

Source: Kast and Rosenzweig, op.cit., p.120.

The societal accounting theorist has a view of accounting in which all economic activity (and a great deal of social activity as well) forms a vast supra-system. Systems (or industries?) operate within the supra-system and individual enterprises form sub-systems (and within them even smaller divisions exist). These diverse units are linked together by inputs and outputs of resources which include various kinds of information. The interaction of the system with the environment (or supra-system) is only partly demonstrated by existing systems of financial accounting. The current environment towards which information is directed is limited to shareholders, debtholders and government. This restricted list of audience members is gradually widening to include customers, employees, trade unions and the general public as recorded in previous chapters. The relationships of the organisation sub-systems with the system, and the system with the supra-system or environment are shown in Exhibit 79 below.

EXHIBIT 79
The Organisational System



Source: Kast and Rosenzweig, op.cit., p.112.

It is the range of information types which adds to the difficulty in explaining the role of social accounting to most accountants. Theoretical models of societal accounting are necessarily complex and may be of most use in a teaching programme or as an aid to further theorising. They are not intended to be of immediate use in attempting to develop pragmatic reporting systems.

A recent attempt at conceptualising the area of societal accounting has been the notion of mega accountancy trends developed by Enthoven.⁵⁹²

⁵⁹². Enthoven, A.J.H., "Mega Accountancy Trends", Accountancy Research Monograph No.5 (Center for International Accounting Development, University of Texas at Dallas, 1985).

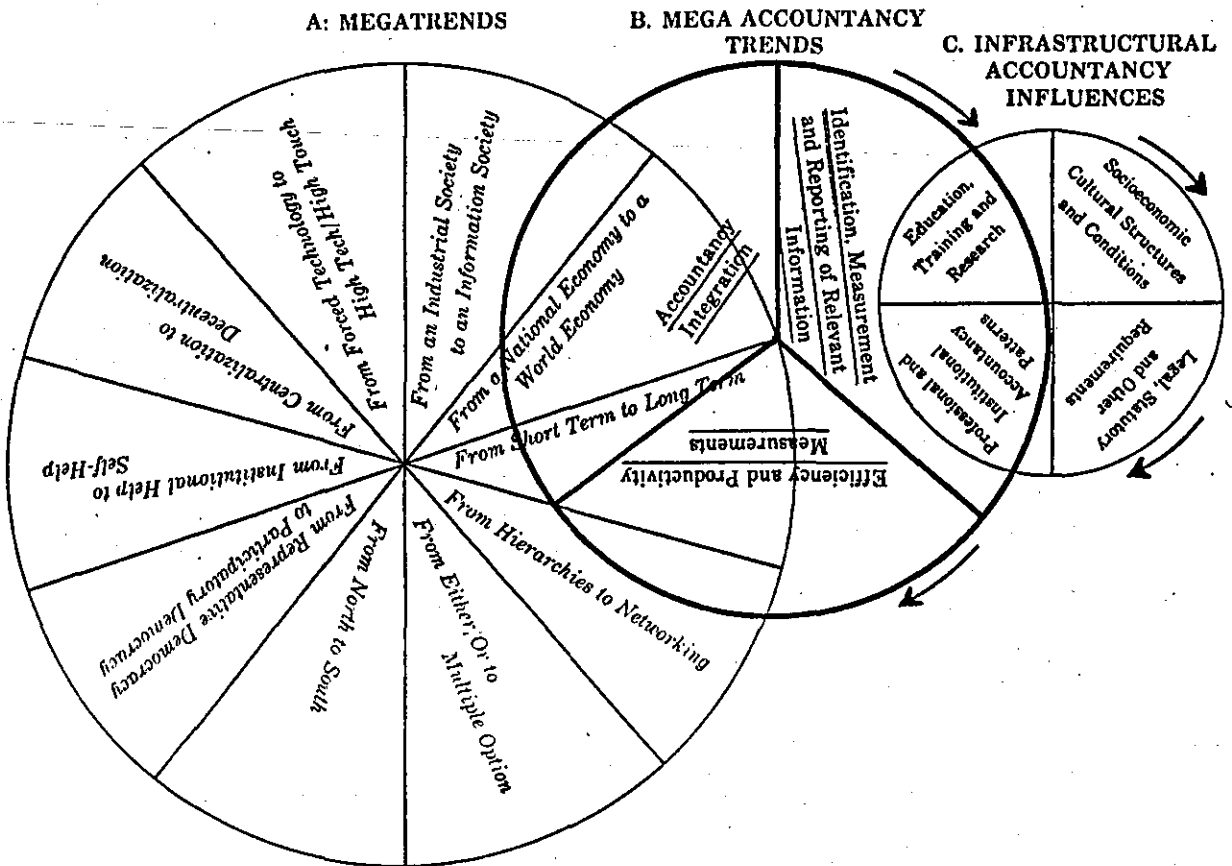
12.50 Mega Accountancy Trends

Mega Accountancy trends were defined as -

"... these dimensions (directions) and required body of knowledge in accountancy that deals with the combining aspects of accountancy to serve integrated broader and deeper societal trends and needs"⁵⁹³

Enthoven builds his model by interacting three wheels dealing with megatrends, mega accountancy trends and infrastructural accountancy influences. These are shown in Exhibit 80.

EXHIBIT 80
Megatrends and their consequences for accountancy



Source: Enthoven, op.cit., p.4.

⁵⁹³. *ibid.*, p.3.

12.51 Megatrends

In this section Enthoven drew on the work by Naisbitt which is concerned with ten new directions for the US economy. These are:-

1. Information based economy.
2. Each new technology is matched by a compensatory human response.
3. Global economy.
4. Moving from short time frame to longer time frames.
5. Economics of scale not relevant to the information society.
6. Move from institutional help to self reliance, increased entrepreneurial activity.
7. The framework of representative democracy has become obsolete in an era of instantaneously shared information.
8. Moving from hierarchical structures to networks.
9. Moves out of industrial cities to new sites.
10. Moving from a narrow either/or society to free-wheeling multiple option society. Key elements will be people, information and systems to bring them together.

Enthoven did not claim that these factors will be equally important in all societies but argued that four factors are important because of their direct effect on accounting. These are; the move towards an information society, the development of a world economy, the move from short term to long term horizons and a shift towards information networks. These four factors are engaged with the Mega Accountancy Trends.

12.52 Mega Accountancy Trends

Enthoven explored mega accountancy trends through three;

"... distinct but interacting trends with many sub-elements".⁵⁹⁴

The three trends are accountancy integration, comprising linkages between enterprise, government and macro accounting; the identification, measurement and reporting of relevant information to serve socio-economic functions; and efficiency and productivity appraisals to assist with analyses and decisions. The accountancy integration comprises a number of subgroups and is mainly concerned with macro level accounting for Government investment. This is an area which may be more applicable to developing countries where basic accounting systems may be deficient. However, value for money audits are of growing importance for developed countries and may be fitted into the framework set down in this monograph.

⁵⁹⁴. *ibid.*, p.8.

Socio-economic and social indicators accounting may also be related to this sub-group.

Mega accountancy identification, measurement and reporting of relevant information follows the philosophical basis set down in the Corporate Report.⁵⁹⁵ The relevant information referred to includes, value-added information, accounting for price change data, socio-economic measurements, human resource information, and projected cash flow data. In this section the author is taking up the interest in a number of areas which have lost ground in the last few years. A good example of "accountancy fashion" is the way value added statements increased in popularity and then decreased a few years later.

Efficiency and productivity measurements are an important part of the larger view of accountancy put forward by Enthoven. Productivity should be measured and incorporated into the accountancy system in order that both the entity and society benefit. Accountancy for decision making (management accountancy) as currently practiced is criticised for being insufficiently forward looking.

12.53 Infrastructural Accountancy Influences

Enthoven identified four vital forces which make up a substantial part of the influence of the infrastructure. These are socio-economic and cultural structures and conditions; legal statutory and other requirements; professional and institutional accountancy patterns; and education, training and research. The potential impact of each of these factors is examined because clearly the infrastructure will be affected by, for example, patterns of education training and research within a particular country. If accountants are narrowly trained they will not be able to offer leadership in some of the areas previously referred to. In which case, either some other group will assume a leadership role, or society will not benefit from the activity at all.

12.54 Conclusion

In his conclusion Enthoven argued that regardless of whether one actually agrees with the whole of the Naisbitt argument or not, there is sufficient development towards the post industrial society in many countries, for the

⁵⁹⁵. ASSC, op.cit.

ideas to be important. When the notions of mega accountancy trends are added together with the effects of the accountancy infrastructure, then;

"... they are not only interdependent but also motivate and feed each other in a progressively changing society. In our opinion, accountancy, and its norms, have to be in tune with these trend requirements in order for accountancy to become an effective and dynamic activity in society. Accountancy may have to take on such a broader or mega role in our opinion to be a viable discipline and profession in the years to come".⁵⁹⁶

12.60 Chapter Summary

This Chapter has introduced the concept of societal accounting as seen by a few accounting theoreticians. The value of this category may be seen in its all-inclusive nature which marks the large-scale long-term boundary to social accounting. Societal accounting in the global sense would involve the tracking of all financial and non-financial resource flows within society. Gambling has expressed the over-arching theory by reference to mini accounts, which are the product of individual household accounts, micro accounts relating to individual organisations and macro, or national scale, accounts. Gandhi has visualised accounting on the societal scale as assisting decision making by society as a whole. Mattessich was seeking a general theory of accounting which integrated all aspects of the discipline although this view does not appear to be inclusive of non-monetary flows. Enthoven is the latest contributor with his futuristic mega accountancy trends which address the post industrial world of developed countries.

Societal accounting can perhaps be better described by reference to systems theory which views the world as a series of sub-systems, systems and supra-systems, all interacting to a greater or lesser extent, according to the degree of openness or closedness of the system. The sub-system consisting of strategic, co-ordinating and operating activities is maintained by the use of the internal accounting and information systems which are entitled the management accounting, capital budgeting and financial management functions, and decision support systems. The relationships between systems (other organisations) and between the system and the supra-system (society) is indicated through financial accounting and forms of statutory reporting,

⁵⁹⁶. *ibid.*, p.34.

which may also extend back into the sub-system. The basis of societal accounting is the recognition that there are non-financial flows involved and that the system currently in use is therefore partial and incomplete. The different categories used in the previous chapters recognised that the process of intra and inter-system resource movements may be better visualised through smaller scale specific techniques. The systems theory view of societal accounting puts the various techniques in perspective as part of an overall resource flow monitoring system. Consequently, the notion of societal accounting is basically an intellectual extension of all the other conceivable forms of social and conventional accounting processes and techniques for resource flow identification and measurement and not a blue print for system implementation.

CHAPTER THIRTEEN

13.00 A SUMMARY OF PART II

13.10 Introduction

The second part of the thesis has considered developments in social accounting by dividing the total range of activities into the following areas -

- (i) Social Responsibility Accounting
- (ii) Total Impact Accounting
- (iii) Socio-Economic Accounting
- (iv) Social Indicators Accounting
- (v) Societal Accounting.

Social responsibility accounting was shown to be the most active dimension of social accounting, with a large number of both conceptual and operational models available to both theoreticians and practicing accountants. A number of organisations have employed SRA in their annual reports to shareholders or employee reports to employees or to works councils. The use of SRA varies in both type and extent from country to country and this variation may be partly the result of cultural factors as well as the stage of relative development.

Total impact accounting involves the inclusion of externalities with private costs to yield the total costs of operations. An examination of the literature revealed relatively little use of this form of accounting even by theoreticians. Clearly there are empirical difficulties connected with the identification, measurement and finally, the valuation of externalities. However, one of the major issues appears to be a philosophical one; should accountants be involved in this area at all. Opinions are sharply divided on this issue.

Social-economic accounting was the term used to cover the evaluation of publicly funded projects. Although there have been attempts to provide for improved decision making, implementation and control of the work of the public sector using CBA, PPBS, ZBB and latterly, VFM audits, it was argued that so far the problems involved had not been overcome. In particular the problem of measuring and evaluating effectiveness (in comparison with economy and efficiency) has not been overcome.

The study of socio-economic accounting, which is concerned with short and medium term publicly funded activity, is complementary to social indicators accounting which takes the longer term perspective. The literature relating to social indicators was found to be largely in the hands of non-accountants. However, it may be argued that there is a place for accounting in an area which is concerned with recording data, making comparisons with plans and reporting outcomes.

Finally, the endeavours of a number of accounting theoreticians to develop an overarching theory of accounting, was examined in the chapter dealing with societal accounting.

It is apparent that to combine these areas into a coherent whole would require the amalgamation of the public and private sectors, macro and micro scale activities, and monetary and non-monetary measurements. It must also be recognised that some data will be 'hard' and some 'soft'.

13.20 Towards Re-integration

Reconciliation of these complex and conflicting developments has been made in Exhibits 81-83. Exhibit 81 shows the impact of social responsibility accounting and total impact accounting on individual organisations. The individual organisation is represented by the rectangle called "The Firm" which employs some form of cost and management accounting process or even a management information system to maintain internal control. The firm operates within an environment affected by company legislation, accounting standards and case law as well as less formalised expectations held by customers, shareholders, employees, and government agencies. The firm interacts with the formal constraints through financial accounting reports, and with the less formal expectations of other constituencies by means of financial actions in the market place and by means of media releases. Conformity with other legal restraints on employment practices and the discharge of waste is assumed.

The future environment is unknown, in respect of both formal and less formal expectations, although it is reasonable to speculate that present constraints will not be reduced and that the expectations of the various constituencies are likely to increase over time.

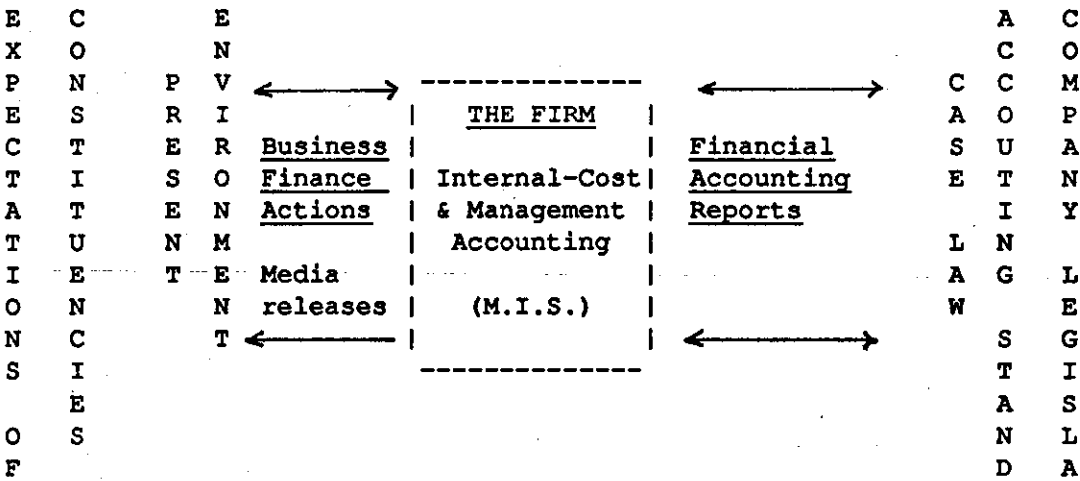
In the lower part of Exhibit 81 the three possible areas of increased reporting are given under appropriate headings. This increased reporting,

which might be required in the conventional annual reports, includes (as examples only) new valuations of existing disclosures and new inclusions valued in \$ amounts. Social responsibility accounting reports, written in both financial and non-financial terms, would disclose a whole range of items not included at the present time. Some suggestions are given in the exhibit. The total impact accounting report would provide for measures of positive and negative externalities converted into financial quantities.

EXHIBIT 81
The Firm in Relation to Present and Future Accounting Requirements

Less Formal Expectations

Formal Expectations



E N V F I U R T O U N R M E E N T	Financial Accounting Reports Modified to allow for: i.New \$ Valuations e.g. C.C.A. ii.New \$ inclusions e.g.Capitalised leases, executory contracts	Social Responsibility Accounting Reports* i.Energy ii.Pollution iii.Employment iv.R and D v.Productivity vi.Community Interaction vii.Human Resource Accounting	Total Impact Acctg.Report Measures of Externalities i.\$Costs ii.\$Benefits negative positive net	C O N S T R U C T I O N S
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* Mixed monetary and non-monetary quantification.

Exhibit 82 illustrates the place which might be occupied by socio-economic and social indicators accounting in the evaluation of publicly funded activities. The shorter term micro social indicators accounting tends to be similar to socio-economic accounting, although the latter would be concerned with a specific programme, rather than the measurement of a general phenomenon, which would provide indicators for future action in respect of a number of programmes. The Exhibit should be viewed as follows. The public activities represented by the rectangle (upper right) are instituted as a result of a political decision process which may be influenced by using cost benefit analysis in a particular situation. The decision making processes may be sharply influenced by political factors, however, once instituted, the programme is controlled both internally and externally. The external control may be by a conventional fund accounting system or a later type such as a Planned Programmed Budgeting System. In all cases the control system is financially based and concentrates on the input of resources in financial terms while tending to ignore non-financial inputs and outputs. Future control processes, it is argued, should take the form of mixed financial and non-financial measurements of inputs and outputs for individual projects. This process has been termed socio-economic accounting and the process is given in the lower right hand quadrant of the exhibit.

On a macro scale, shown on the left of the exhibit, control is exercised at the present time by means of a financial budget and fund accounting system. There is little or no measure of overall effectiveness of the macro programme (examples might be health or education). It is suggested that the use of social indicators accounting would assist in determining the overall effectiveness of programmes in achieving socially determined objectives.

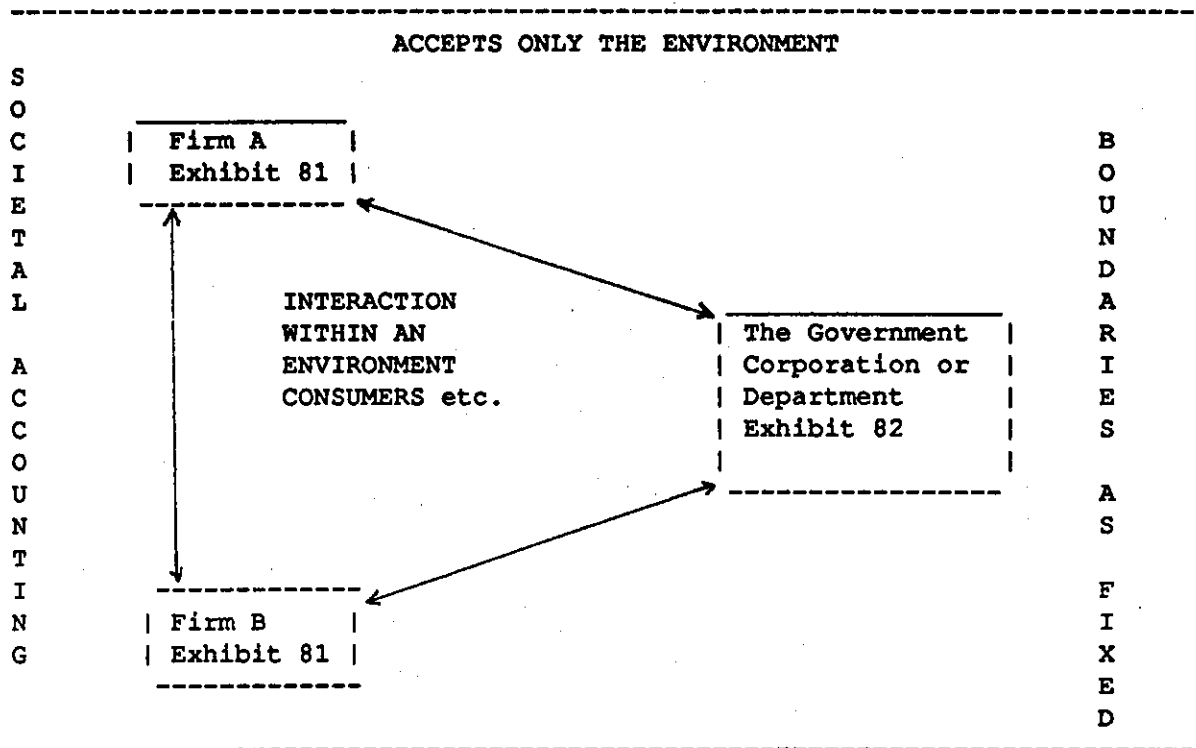
EXHIBIT 82The Possible Extension of Accounting Reports in Respect of
Public Sector Activities

<u>MACRO</u>		<u>MICRO</u>	
P R E S E N T	Financial Budget	Cost Benefit Analysis	
	Allocation and	Political Decision Processes	
	Control	----- Conventional	
		Public Activities	← PPBS
		Social Benefit Pro-	← ZBB
		grammes	← MBO
		Internal Control	Systems

Social Indicators Accounting		Socio-Economic Accounting *	
F U T U R E	(i) Goal Concerns Articulated	(i) Evaluation of costs and benefits	
	(ii) Output measures identified	(ii) Evaluation of outputs	
	(iii) Output measures quantified	(iii) Statement of achievements	
	(iv) Evaluation of the extent of achievement of goals	(iv) Evaluation of total project ex-post	
	(v) Formulation of new goals and measures	(v) Use of data in new cost benefit analyses of subsequent projects	
	Non-Financial	* Mixed Financial and Non-Financial	

The development of these additional forms of accounting for disclosure, reporting and decision making purposes, is seen in the wider context of societal accounting and a systems approach in Exhibit 83 below.

The Exhibit shows the interaction of the firms (which might be reporting via SRA and TIA as shown in Exhibit 81) with each other and with a government corporation or department. The latter reports via SEA and SIA as shown in Exhibit 82. Both the firms and the government corporations or departments are operating within the one environment and those theorists favouring a macro overarching theory of societal accounting, would include additional groups such as consumers. The boundaries between individuals and organisations are considered to be open and flexible.

EXHIBIT 83Societal Accounting and a Systems Approach

13.30 Implications for Accountants, Accounting Students and Accounting Educators

Even if we confine our attention to the three most likely developments, social responsibility accounting, total impact accounting, and socio-economic accounting, it is most unlikely that the present structure of the profession could cope with the changes that acceptance of these new techniques would bring. It would be necessary to incorporate new material into existing academic and professional development programmes, to allow for areas of knowledge in which accountants would initially be deficient. For social responsibility accounting, it would be necessary for future accountants to be less reliant upon monetary quantification (wherein they feel secure) and move into wider areas of non-monetary quantification (where new statistical techniques may be needed). An awareness of measures used by the social and physical sciences may also be necessary. Auditing of the new measures would eventually be needed, and this too would require either a wider expertise from the auditor or place reliance upon specialist personnel; a social audit specialist for example.

In the area of total impact accounting the future accountant will not have to forego monetary measurement, but it will be a new type of accounting

based upon the valuation of externalities, requiring expertise in econometrics, sampling theory, and the construction of models. Once again, the audit problem will be of the same magnitude and nature.

It is probably the area of socio-economic accounting which brings the greatest challenge to theorists and teachers of accounting and their students. It is clear that this area of evaluation and control is not being pursued by accountants at present. To come to grips with the problems involved, the accountant will require specialist training, probably at postgraduate level. The socio-economic accountant will require a good knowledge of government policy making and administration; business accounting and investment management; the social sciences in general and social statistics in particular. However, the rewards will be commensurate with the difficulties, since increasing the efficiency of government spending and programme formulation and control is something from which all taxpayers should benefit. There is an opportunity for accountants to exert a major influence upon the efficiency and effectiveness of government operations.

CHAPTER FOURTEEN

14.00 CONCLUSION - DIRECTIONS FOR FUTURE RESEARCH

This thesis has investigated two of the major issues of contemporary social accounting, namely, the justification of further expenditure of resources on additional disclosures (Part I) and the provisions of a structure to aid research and implementation (Part II). Before developing the framework which forms the major part of the thesis it was necessary to address the basic issue of what justifications exist for extending accounting measurements and disclosures beyond traditional limits. Three forms of justification were suggested.

First, a market related consideration that disclosures of a socially relevant nature may have information content for use in the market place. Shareholders and other market participants, it was argued, will benefit from the increased amount of information available. Although a large number of studies have been undertaken using data from both social responsibility accounting reports and that supplied by independent bodies such as the CEP, few are decisive in their conclusions. The data sources, degree of aggregation and disaggregation, tests performed and overall statistical manipulation employed are all open to challenge. Although on balance it may be argued that there is some evidence that social responsibility disclosures have information content in the capital markets, because above or below standard returns may be obtained, it has been concluded that there is insufficient certainty to put this forward as a major justification for new forms of accounting.

Secondly, it was argued that wider audiences (employees, customers, suppliers and the general public) were entitled to information about the operations of the enterprise because of the existence of a social contract between business and society. A number of the philosophical issues were examined, including varieties of social permission theory (social contract, organisational legitimacy) and individual contract theory which is offered as a justification for a free market non-interventionist model.

Social permission theory, in its various forms, provides a firmer conceptual foundation for social accounting developments than either the earlier literature, which asserted that social accounting was 'a good thing

to do', or some of the literature relating to markets and information content, which has been referred to above. Social permission theory lays the groundwork from which to develop non-traditional forms of measurement and reporting in both the private and public sectors. The social contract approach enables a justification to be put forward for many types of disclosure on the grounds that the basis for the contractual relationship is changing. The organisational legitimacy view justifies the development of social accounting disclosures by management to protect the interests of the shareholders and not because of any philosophical commitment to a social contract between business and society.

The social permission theory approach provides a justification for developing social accounting disclosures which is part of the current organisational and societal structure. This approach seeks to modify and amend our present systems of private and public control and associated reporting practices. It does not seek to replace them in the manner advocated by adherents of the radical paradigm. It supports evolution rather than revolution. This partial support for the status quo is both a strength and a weakness of the social permission theory approach. It is a strength because a large number of groups in society can accept this position to a greater or lesser extent. These include managers, shareholders, many employees and customers. It is a weakness because existing wealth endowments are taken as given and power relationships are viewed as unproblematic. Those groups not involved in society as employees or customers (the very poor) tend to be ignored.

Thirdly, the radical paradigm was examined because, although regarded by the author as inappropriate as a justification for the adoption of social accounting at the present time, there is no doubt of the powerful intellectual qualities of the arguments put forward by radical advocates. The radical view is that accounting acts to support the status quo and social accounting should move away from this position. In particular, the acceptance of marginalist economic positions, the use of an efficient market model, and a lack of recognition of the pre-disposition of wealth endowments is of concern to these theorists. Whilst there is no doubt of the intellectual challenge, there are considerable problems inherent in getting non-traditional accounting disclosures accepted. An acceptance of radical approaches by social accountants would only exacerbate the position. The challenge of the radical paradigm is strong when confronting

issues of wealth endowments, power relationships and the hierarchical nature of western economies. However, most radical theorists have not put forward models of their own to be set against those reviewed in many of the sections of this work. The theoretical proposals discussed in a number of recent papers⁵⁹⁷ do not generally provide any critique of what current social accounting in its various forms is trying to do, except to say that it defends the status quo (in whole or in part) and is therefore unacceptable. This thesis has taken what the author thinks to be a more positive approach by describing and critiquing what has been attempted in this field.

The second major objective of this thesis has been to provide a framework which might assist researchers in the area of social accounting. The approach to policy formation set out by McDonald⁵⁹⁸ indicated that normative frameworks require a clarification of values, a means-end analysis and the incorporation of all relevant data. The division of 'social accounting' into social responsibility accounting, total impact accounting, socio-economic accounting, social indicators accounting and societal accounting assists in the identification of ends, and consequently of means.

Social Responsibility Accounting is the area most widely researched and practised. SRA research exhibits many of the characteristics of descriptive (theories of) accounting. This may be a productive approach given the amount of data available. However, it is suggested that further research should concentrate on the extent of disclosure, relationships between the size and type of industry and SRA disclosures, the audit of disclosures, disclosures and security market prices and the views of the participants. Currently, the work is frequently deficient because of the subjectivity of many of the measures used. Any form of non-traditional disclosure made by a private sector organisation has the prospect of being a social responsibility accounting disclosure as defined in this work. However, there is often a fine dividing line between those disclosures which may be included as SRA, because they have many of the characteristics of accounting data, and those which should be excluded because they are self-serving or uncritical in approving of company policy.

⁵⁹⁷. A large number of papers were presented at a recent conference - Interdisciplinary Perspectives on Accounting Conference, University of Manchester, 8-10 July 1985.

⁵⁹⁸. McDonald, op.cit.

Much of the analysis completed to date is likely to be incapable of replication because the precise details of the techniques employed have not been disclosed. There are exceptions which have been noted in the text. However, even though the techniques have been imperfect and the analysis suspect, it is hoped that the examination of reported SRA disclosures will continue.

In dealing with total impact accounting we must confront the philosophical debate over whether shareholders are being required to pay for social responsibility or, on the other hand, the general public are entitled to protection from externalities. Identifying the ends (in this case the valuation of externalities to convert public costs to private costs) does not immediately indicate the means to be employed. Although data on general externalities may be available, the isolation and valuation of special enterprise-related externalities is more problematic. Research into this area may begin by looking at the externalities attached to single enterprise communities. An alternative approach is that suggested by Ramanathan and Schreuder to link macro and micro indicators. However, the issue of the valuation of externalities must still be addressed. The degree of pollution in some parts of the industrialised world demands that action of some sort be taken to repair the damage because the market model cannot cope with externalities. There are legislative and administrative solutions such as legal sanctions against the discharge of externalities and licensed discharge under limiting conditions. In both cases there is a need to monitor discharges and consequently for work in the area of total impact accounting. There would most likely be a financial dimension to be recognised and attached to the organisation in order that total cost would be the same in both private and public calculations. In many ways the likely outcome of the recognition, measurement, valuation and attachment of externalities is closest to the experience of accountants in the industrial sector. However, the philosophical issues and measurement difficulties make this area one of the least developed within social accounting.

The end to be addressed by socio-economic accounting is the evaluation of publicly funded programmes by techniques other than those used at present. The main problem (of means) is an almost complete lack of accounting models which will enable the analyst to deal with financial, non-financial and

qualitative inputs and outputs. Research in this area must begin with the development of the models themselves. Some assistance may be obtained from other areas such as the institutional performance indicators. Socio-economic accounting will require a new institutional relationship to replace that which currently persists in the public service. The experience which government accountants are having with value for money (VFM) audits may provide a good training ground from which models for SEA may be developed. Value for money audits make some progress towards finding models but the implementation is frequently inadequate because effectiveness is frequently not evaluated. The lack of specific models will slow the development of this important area.

Social indicators accounting has, as an 'end' product, data from which the progress towards socially agreed goals may be determined. The area appropriate to accounting involvement must be delineated, and the goals identified; the goals indicators may then be developed. The processing of the indicators will be dependent on the availability of the underlying data. Research is needed into both of these 'means', the data to develop the indicators and the indicators themselves. A further area of development is that suggested by Ramanathan and Schreuder where macro indicators are associated with micro indicators to serve a specific purpose. However, it is suggested that a more feasible association is between social indicators and socio-economic Accounting since both deal with the public sector.

Although SRA is currently the most 'populated' area, the other areas are deserving of support, because therein lie some of the most important challenges for academic accountants. There is considerable scope since, as Gandhi has expressed it:

"Accounting as an information system transfers images which are a necessary precondition to any individual or collective behaviour. These images constitute a knowledge structure which included inputs and outputs of information, symbols and language. By providing such knowledge structures of various economic entities accounting furthers the societal process of adaption in which the society tries to adapt itself to its larger ecological environment. Simultaneously, it also adapts that environment".⁵⁹⁹

⁵⁹⁹. Gandhi, N.M., op.cit., pp.199-200.

This statement sums up the larger approach of societal accounting. However, accounting at present is still very much on a micro scale, whether it is a business enterprise, local authority or government department. It is micro in the sense of small but also narrow in the degree to which it recognises information as a suitable input to the system. One of the purposes of this thesis was to review some of the attempts to broaden the view of accountants towards information which should be available to government departments and social programmes.

This thesis has examined some of the newer ideas in accounting, many of which are usually discussed under the general heading of social accounting, and others which are not generally discussed in the accounting literature. The intention has been to show how these ideas are different and a scheme is presented which relates the new ideas to each other and to present day accounting. Recent work on the disclosure of socially relevant information is described. The pursuit of many of the issues covered in this thesis would indeed result in a more socially relevant accounting.

14.10 Directions for further research

The wide-ranging contents of this thesis means that a large number of relatively discrete areas may be identified for further research. These are listed below using the same format as is employed for the structure of the thesis.

Part I: Justifications for additional disclosures

- i. Additional market related studies are needed to establish whether relationships exist between specific disclosures and the reactions of market participants. At present the results of such studies are equivocal.
- ii. The philosophical arguments which may underlie additional disclosures (such as social permission theory, the social contract between business and society, and organisational legitimacy) provide opportunities for further research. At present the normative-deductive arguments are unsupported by empirical research into the motivation of those managers who use annual reports to provide non-traditional disclosures to a variety of audiences. Also, the reaction

of users of annual reports needs to be considered, although this is done to some extent through the market studies referred to above.

Part II: The organisation of socially relevant accounting

- i. Social responsibility accounting disclosures are currently made by a number of organisations, and there is a literature relating to the measurement of the type and extent of these disclosures. As noted elsewhere, the research methods employed require further refining in order to provide for greater replicability of results by independent researchers. In addition, there are a number of specific SRA related issues which need further attention, including, human resource accounting, employee reports and industrial democracy/power sharing, and the means by which pollution may be recorded.
- ii. Total impact accounting involving the identification, measurement and valuation of externalities, is considerably underdeveloped at the present time. Consequently, opportunities exist for further research into the means by which externalities may be measured and valued. The problems associated with a compensation system, using non-market mechanisms, whereby parties affected by externalities may seek redress is a difficult but necessary research area which must be pursued.
- iii. Socio-economic accounting provides for the integration of non-financial quantification and financial measurements in the evaluation of publicly funded projects. The search for measures of effectiveness in areas where there is no market for the end product/service offers many opportunities for research, especially in areas which are politically sensitive such as educational systems and the provision of health care. Models to assist in the evaluation of the wider aspects of these activities have yet to be developed.
- iv. In the area of social indicators accounting further work is needed to map out specific problems of measurement and reporting which may be assisted by an accounting approach. The data bases currently available may be deficient and unable to support the types of information which is considered necessary in order to measure progress towards agreed socially desirable goals.

- v. The macro aspects of accounting systems, which were referred to under the heading of societal accounting, are culturally determined or, at least, strongly influenced by the national culture. Consequently research may be undertaken to compare systems with each other and to investigate what are the main factors impacting upon a particular national accounting system.

14.20 Use of the model

The classificatory model put forward in this thesis may be used to clarify and assist with understanding of the literature in the social accounting area. It may also be used to identify research opportunities and areas where the implementation of novel forms of disclosures may be achieved.

In addition to the above uses, the model may be used as a framework to assist the development of teaching programmes about alternatives types of accounting and reporting systems.

14.30 Statement of contribution

This thesis makes an original contribution to the literature of social accounting by means of the following:

- i. A number of arguments concerning the expenditure of additional resources on further disclosures about economic entities are considered. Little attention has been devoted to this aspect of social accounting in recent years.
- ii. A structure for classifying the different types of disclosures which are collectively referred to as social accounting. The structure assists with examinations of the literature, formulation of research questions and in the design of teaching programmes in the social accounting areas, by reducing confusion between different sub-sections of the social accounting material.
- iii. As part of the development of the structure or model referred to above, the literature of social accounting was extensively reviewed, to discover conceptual and operational models, and the extent to which organisations already disclose non-traditional information in their annual reports. The literature review and search for models is more inclusive than is generally found in the literature.

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APPENDIX ICONTRIBUTIONS BY THE AUTHOR TO THE SOCIAL ACCOUNTING LITERATURE

The material listed below is grouped into six categories. Within each category materials are listed in order of publication. A number of entries are derivative and this feature of the work is freely acknowledged.

- I. Justifying the implementation of new forms of accounting which may be seen as more socially relevant.
- II. Classification systems for use with social accounting research.
- III. Survey work dealing with the attitudes of accountants towards social responsibility accounting disclosures.
- IV. Survey work dealing with social responsibility accounting disclosures in Australia and New Zealand.
- V. Teaching programmes in the social accounting area.
- VI. General - a category used for a large number of minor entries, the main purpose of which was to raise the general level of awareness of accountants in respect of the social accounting area.

I. JUSTIFYING THE IMPLEMENTATION OF NEW FORMS OF ACCOUNTING WHICH MAY BE SEEN AS MORE SOCIALLY RELEVANT.

1. "Towards Multiple Justifications for Social Accounting and Strategies for Acceptance", Working Paper No.11 (Public Interest Section, American Accounting Association, Spring 1985) 40pp.
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6. "Accounting for Society I - Social Accounting and Social Responsibility Accounting", Accounting Forum, Vol.5 No.1 (March 1982) pp.22-30.
7. "Accounting for Society II - Socio-Economic Accounting and Social Indicators Accounting", Accounting Forum, Vol.5 No.2 (June 1982) pp.35-43.
8. "Accounting for Society III - Societal Accounting", Accounting Forum, Vol.5 No.3 (September 1982) pp.30-35.
9. "A Framework for Social Accounting", a paper presented at a Workshop on Accounting in a changing political and Social Environment (ETASM, Brussels, December 1982) 30pp.
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6. "A Comparison of Accountants' Responses to New Ideas, Washington State CPA's and New Zealand CA's". Discussion Paper No.20 (Department of Accounting and Finance, Massey University, November 1983) (with E.L. Schafer) 21pp.
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8. "Social Responsibility Accounting Disclosures: Differential Responses as a Function of Professional Body Membership", Working Paper No.8, (Public Interest Section, American Accounting Association, Spring 1984) (with I.M. Gordon) 18pp.

9. "Social Responsibility Accounting Disclosures: Differential Responses as a Function of Professional Body Membership", a paper presented at the Annual Convention of the American Accounting Association, Toronto (August 1984) (with I.M. Gordon) 21pp.
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The applicant has been joint editor of a newsletter the Social Accounting Monitor, since it started in 1982. A total of eleven editions (numbers) have been produced. SAM has a circulation of over 600 on a worldwide basis.

