Thirty years of social accounting, reporting and auditing: what (if anything) have we learnt?

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Introduction

Whilst social accounting enjoyed considerable experimentation and currency in the 1970s it fell off the public agenda in the 1980s, so much so that there was considerable hostility to the concept during the 1980s and beyond. Whilst environmental accounting and reporting experienced a much-overdue resurgence during the 1990s it was not until the mid-1990s that social accounting was rehabilitated. At the turn of the century it is of paramount importance that both social and environmental accounting become embedded in organisational convention, custom and law. They must no longer be subject to political whim or left to the voluntary action of corporations.

This brief note presents a personal overview of these developments in social accounting, reporting and auditing. In the following sections I briefly outline what I believe to be the three strands of social accounting. I then turn to a few of the lessons that we may be able to learn from current experience and, in particular, how social accounting is related to accountability, democracy and sustainability. The central issue of the tension between accountability and control is touched upon: I then illustrate how the stakeholder model can be used to help define the social account, and conclude with a few words on attestation.

Three strands in social accounting

Imposing any sort of order on the diverse and intermittent development of social accounting in the last thirty years is, inevitably, a slightly artificial exercise. (See for example Gray et al. 1996 and Mathews 1997 for other reviews.) It is nevertheless helpful to conceive of three quite different sorts of social accounting. They have all been around – to varying degrees – throughout the period.

(i) The ‘social audits’

The ‘social audits’ referred to here are those public analyses of accountable entities undertaken (more or less systematically) by bodies independent of the entity, and typically without the approval of the entity concerned. In the broadest sense, the social audit is being used by society – or a group within society – to hold the entity to account whether it likes it or not (see for example Harte and Owen 1987, Geddes 1992). It is therefore an essentially democratic activity, even if the body undertaking the action is not itself an elected body.

The standard for social audits was set by Social Audit Ltd in the 1970s which produced seminal reports on companies such as Tube Investments, Avon Rubber and Coalite and Chemical. The work has been taken up and developed in many
different ways by organisations as diverse as trade unions, Greenpeace, *Ethical Consumer*, *New Consumer*, The Ecumenical Council for Corporate Responsibility, EIRIS, and many others. The message is always that if organisations fail to act appropriately and fail to discharge their account to society, the social audit may well appear and do the job for them.

One final point worth emphasising about the external social audits is that they are founded on conflict, power/information asymmetries and differing interests. They act to challenge those with the (perceived) power (typically governments and corporations) to act differently, regardless of how well-intentioned those institutions might be. In so doing they remind us that democracy is something which is hard won, and which can be easily lost through complacency as much as through conspiracy. In the current debates over sustainability it will be the actions of the various external social audits that will arrest the capture of sustainability by probably well-intentioned but fundamentally ignorant corporate interests.

(iii) The ‘silent social accounts’

Despite the hostility that social accounting has experienced at times over the last 30 years, it is worth remembering that most organisations undertake a not insubstantial and increasing amount of such accounting. Law has steadily increased the areas of disclosure required of (particularly) companies on such matters as employees, political and charitable donations and governance. At the same time, organisations have steadily increased their areas of voluntary disclosure, most obviously on environmental issues but also on matters such as consumers, product safety and interactions with the community. (See for example, Gray et al. 1995a, 1995b, Adams and Harte 1998.)

Taken together, these data form the basis of a social account – a ‘silent’ social account. That is, re-arrangement of the material already produced by companies would provide a first approximation of a social account for negligible cost. (See Gray 1997 for more detail and an example.) These ‘silent social accounts’ have potential importance in two ways. First, despite the increase in the data already produced by organisations and the research interest it generates (see Gray et al. 1995a, 1996 for reviews), the data is not (apparently) used in any active way. Active employment of the data – and, more especially, the absence of such data – provides a means to make organisational accountability a more active process (Adams and Harte 2000). Second, the collation of this material to produce separately identified ‘social and environmental reports’ alongside the extant financial report will help to socially reconstruct the organisation as more than simply an economic entity. Such reconstruction is essential if we are to try and ‘re-invent’ capitalism and/or recognise that rules of the game under which corporations act need drastic re-definition (Friedman 1970).

(iii) The ‘new wave’ of social accounting

The new wave of social accounting is really an echo, albeit a distant and rather more cautious and less experimental echo, of much of the social accounting of the 1970s. What we see emerging at the turn of the century is a range of organisations – NGOs, values-based organisations and companies – making significant attempts to produce systematic social accounts. Driven by a wide diversity of influences, encouraged and supported by new organisations and initiatives and learning from the experiences of environmental reporting, the groundswell of movement towards substantive and wide-spread social accounting is extremely encouraging (Zadek et al. 1997). The recent inauguration of a UK social reporting award scheme (jointly sponsored by the Association of Chartered Certified Accountants and the Institute for Social and Ethical Accountability) not only speaks of a major development in social reporting but offers an important mechanism through which to monitor progress and raise standards.

There is, however, an initial cautionary note which needs to be added here. There are several strands to this ‘new wave’ (Gray et al. 1997), but not all of them merit our unqualified support (Owen et al. 2000). A lack of theoretical rigour and the triumph of optimism and pragmatism over clarity of purpose are leading to a *melange* of stakeholder dialogue, sustainability reporting
What have we learnt so far?

In simple terms, it is not obvious that we have learnt a great deal. Particularly striking is the way in which organisations which have years of social accounting experience seem unaware of it. We seem to live in a world not of ‘learning’ but of ‘forgetful’ organisations. Equally, as a society, we seem perfectly capable of failing to learn from the lessons of the past. There is, however, much that can be learnt from the experience. One of the more obvious things is that social issues, and thus accounting for them, are profoundly complex. Social accounting is therefore not an easy task. Furthermore, we must begin to recognise that social accounting should *hurt*. If it doesn’t raise difficulties, cause unwelcome re-examinations of the organisation and so on, then it is probably not good social accounting.

But the most crucial lesson we need to learn is about clarity of objectives. A social accounting process can, it seems to me, have one of four primary objectives. It can be intended:

- to discharge accountability to stakeholders;
- to *control* stakeholders;
- to move towards sustainability reporting; or
- to be an exercise in self-justification.

There is overlap between these objectives but there are much greater differences between them. In essence, accountability places society at the heart of the analysis and questions the legitimacy of an organisation’s actions, or perhaps even its right to exist. A management control orientation places the organisation at the centre of the debate and the society’s – not the organisation’s – legitimacy may be called (however implicitly) into question. Unless we maintain the most naive of views over the relationship between the aims of society and the aims of corporations it is clear that each approach produces very different results. Unless the social accounting is about accountability (and thus democracy) and/or sustainability (and thus issues of justice) it is failing in its principle purpose (Gray et al. 1996, Owen et al. 1997, Bebbington 1997, Bebbington et al. 1999).

We have learnt a lot about the nature of accountability and its discharge over the last 30 years, and we are approaching a situation in which full and democratically-orientated social accounts *can* be constructed (even if the organisations concerned do find the notion an unattractive one). What is far more challenging now is establishing how social accounting can play its part in the moves towards sustainability (or away from un-sustainability) (Gray 1992, Bebbington and Thomson 1996, Lamberton 1998). We are only just beginning the process of learning how we might account for issues of social justice in a way that helps us towards sustainability.

It is still far from clear whether or not a developing and active accountability is a *sine qua non* of sustainability, or even whether accountability is compatible with sustainability. But as a re-empowered democracy with enhanced mechanisms of accountability currently looks like the essential precondition for curbing some of the unsustainable trends of the present time, social accounting continues to direct its efforts here.³

Accountability and stakeholders

Accountability is a relatively simple notion that is widely misused and misunderstood. It is simply about identifying what one is responsible for and then providing information about that responsibility to those who have rights to that information (Gray et al. 1996). In the organisational context we typically call these people, and groups to whom we are responsible, the stakeholders.

A stakeholder of an organisation is anyone who can influence or is influenced by the organisation. That pretty much includes everybody, and all stakeholders have some form of rights. Stakeholder rights to information vary somewhat. It is helpful to layer these rights by reference to

(i) law
(ii) quasi-law – non-legal codes, for example
(iii) corporate values and mission statements, and
(iv) moral rights – e.g. over the environment and health of children (Gray 1997).

In effect, these mean that responsibilities, and thus information rights, are determined by society (law and quasi-law), the company and the stakeholders. From this, it is relatively straightforward to derive the principles for an accountability-driven social account.

Using the stakeholder model

The first stage in using the stakeholder model is to identify all the broad groups of stakeholders that the organisation has – employees, financial community, suppliers, customers, local communities, competitors, government/state, the wider community and so forth. Then each of these broad groups is broken down into constituent parts – for example, the different categories of employees, including past employees and possibly employees’ families.

This process produces an informative, if bewildering, array of stakeholders. All of them have some rights to information about the organisation. These stakeholders must then be prioritised, and to date this is something that has rested more or less entirely in the hands of the company. (Obviously company law has already prioritised shareholders as a stakeholder group.) An important part of the social account is explaining how this prioritisation has been achieved.4 One of the keys is that the reader of the account must be able to establish what is missing. Equally, through the effect of information inductance, the reporting organisation must be brought to address its activities across the spectrum, and to recognise the conflicts of interest that must (necessarily) result.

The resultant subset of stakeholders forms the basis of the social account. For each stakeholder, the accountability-discharging organisation needs to provide four layers of information (which broadly correspond to the basis of the information rights of the stakeholder). These layers of information are:

- (i) information defining the essential elements of the stakeholder-organisation relationship, e.g. number and types of employees, pay levels, hours of work and so on;
- (ii) information required to discharge those responsibilities obtaining through law and quasi-law, e.g. responsibility to protect the environment, compliance with industry codes of practice and so on;
- (iii) company-preferred information, i.e. what the reporting organisation wishes to tell stakeholders, including compliance with the organisation’s own mission/value statement;
- (iv) information concerning the preferences and views of the stakeholders themselves. This is part of the stakeholder dialogue processes currently so popular, but it is not the same thing. This is about the stakeholders’ preferences for responsibility and accountability, not the banal reporting of how successfully stakeholders have been influenced by public relations material.

Built up from these component parts, the organisation is in a position to identify, report and discharge its social accountability.

This is, of course, a partially idealised version of events. Few organisations will wish to go through this process, although the value-based company Traidcraft plc came very close (Gray et al. 1997). At the present time, thinking in social accounting concludes that only such a systematic process can produce any report with claims to completeness and transparency. Whilst the probability of persuading any government to require such information of organisations seems exceptionally remote, we need to retain some notion of what we eventually require so that we might ensure that social accounting does contribute to the reempowerment of democracy.

Also, a report is all very well, but given the tensions and conflicts which the reporting organisation must experience, it is far from obvious that the organisation will be willing or able to tell the truth, the whole truth and nothing but the truth (assuming we subscribe to the notion of ‘truth’). It is the job of the auditors to pronounce on the qualitative characteristics of any social report.
Attestation

The final point in the process before reporting is attestation. In much the same way as the financial auditor is required to pronounce upon the ‘truth and fairness’ of corporate financial statements, so social (and environmental reports) require some examination so that the reader can be assured of their completeness, honesty, etc.

Although there is little beyond AA1000 in the way of formal guidance for the accountable entity and the auditor on how to approach the construction and attestation of the social account, it is not obvious why this should be a problem, although problem it clearly is. The quality of attestation to social and environmental reports is woefully poor (Ball et al. 2000, Owen et al. 2000). The accounting profession has devoted considerable effort over the years to defining the characteristics of a good account, and in essence the auditor’s job is to say whether or not the account meets these requirements. On the face of it, this should be a fairly straightforward task. Clearly it is not.

For an attestation to mean anything, the auditor needs to be independent of the organisation producing the report, to be in a position to exhibit the highest standards of ethical and professional integrity and to have had a thorough training in the issues at stake. For most attestation of social and environmental reports, the problem starts here. However, the matter is clearly more complex than is apparent to us at the present time because even able and well-trained accountants seem incapable of bringing the standards expected of the financial audit to the audit of social accounts.

Central to an audit of quality, especially in social and environmental accounting, is the criteria of completeness. (It is now apparent, as I have discussed above, that completeness can be usefully assessed by reference to the stakeholder model.) Other issues of reliability, freedom from bias and so on, also play a crucial role. Sadly, to date at least, if we were to assess attestations on either social or environmental reports by the criteria expected of a good account, we would be very largely disappointed. The current state of attestation is especially discouraging (Ball et al. 2000, Owen et al. 2000) as it seems auditors are unwilling or incapable of assessing and then reporting on the extent to which a reader might rely on the social account. This renders attestation either a complete waste of time and money or, more perniciously, a deliberate attempt to mislead society as to the quality of organisations’ social and environmental performance.

The audit is therefore central to the development of significant accountability through social accounting, but it is failing society in a major way. This is simply not acceptable and one might have thought we could have learnt this lesson by now – apparently not.

Conclusions – what have we learnt?

Thirty years of diverse innovation, experimentation and development offer a wealth of experience on which current and future waves of social accounting could productively draw. It is not always apparent that those involved in the policy and/or practice of social accounting have made the best use of this experience. We do seem to be in the presence of forgetful, rather than learning, organisations.

Some of the key lessons we need to learn and retain include:

- Voluntary initiatives do not produce widespread, consistent and systematic practice. Only changes in organisational regulation can produce this.
- Organisations produce an increasing amount of social and environmental information – much more could be made of this for both accountability purposes and for re-constructing the organisation through the ‘silent social accounts’.
- Voluntary social reporting is a highly valuable exercise for a variety of reasons, not the least of which is its usefulness for experimentation purposes. Such reporting also, because of its difficulty, deserves a great deal more praise than it receives.
- Voluntary reporting must however be an activity which is broadly in the interests of the organisation undertaking it. If social accounting is about accountability and democracy (and it is largely worthless if it is not about this) then
it is highly unlikely to be in the organisation’s short-term and conventional interests.

- This leads to the general rule that if an organisation does voluntarily produce social accounts they are probably, by definition, not going to advance accountability and, by corollary, only if the organisation does not want to produce the information is it likely to benefit society.

- We now have the means to develop sensible, meaningful and systematic social accounts. This is something we did not have when social accounting was so successfully hustled off the agenda in the 1970s.

- We have also learnt that there is a considerable diversity of issues in social accounting and that, by definition, almost no social account can ever be entirely complete.

- Social accountability changes, often considerably, over time. Any approach to social accounting must be capable of monitoring, and responding to, changes in the social issues of the society in which it is grounded.

- Attestation is crucial, but good quality attestation appears beyond the competence (or integrity) of most current auditors.

- There is no need to re-invent wheels – no matter how plausible the consultant might sound.

- Clarity of objectives, a systematic approach, quality evidence, completeness, integrity and independence are the sine qua non of good social accounts: this probably suggests that few ‘good’ social accounts have yet been produced.

These are all lessons we seem slow to learn and remember. Beyond the constant need for experimentation there is simply not the need, the time or resources to continually re-define and re-imagine basic corporate accountability. There is a real time pressure on us all, and that is the pressure of sustainability. We must urgently turn our attention to the problems of how to report for sustainability, and especially for issues of social justice. On this, I fear, the past has little to teach us.

Notes

1. Terminology is a problem in this area. At its most basic, I use the terms here as follows. ‘Accounting’ is used to refer to the preparation and presentation – by the accountable entity – of an account of its social interactions. ‘Social audit’ is used typically to refer to accounts prepared by bodies independent of the accountable entity. However, that term is also widely used in a ‘taking the social pulse of an organisation’ sense when the social audit may be undertaken by the entity itself. ‘Reporting’ refers to the communication of the account or the audit. ‘Attestation’ is used here to refer to the expressing, by an independent body, of an opinion about the reliability, honesty, etc., of the account.

2. Social Audit Ltd is still an active organisation, although it is generally more specific in its interests these days. For more detail see especially Medawar (1976).

3. It is worth recording that critical theorists, although increasingly recognising the radical moment of social accounting, remain properly concerned about the naive theorising and political awareness that they perceive as being at the heart of social accounting. In simple terms, social accounting is assuming that democracy (and capitalism) is either redeemable or reformable, and that evolution can produce substantial change. The critical theorists would have the very deepest distrust of such a set of pragmatic and (ultimately) optimistic assumptions. These concerns would also echo the profound misgivings that a deep green perspective would bring to the issues. See Gray (1992), Owen et al. (1997) and Bebbington (1997) for the social accountants’ attempts to address these serious issues.

4. This process must produce conflict. Not only will there be conflict between stakeholders – for example, environmental responsibility may be seen as reducing shareholder or employee earnings – but there is bound to be conflict in the mind of the reporting organisation. This will initially be most apparent in the organisation’s unwillingness to address the rights of certain stakeholders but will quickly extend to the information that organisations are willing to disclose. It seems highly implausible that many organisations – if any – would voluntarily produce a full and transparent social account.
References


Mathews, M.R. 1997. ‘Twenty-five years of social and environmental accounting research: is there a silver jubilee to celebrate?’ Accounting, Auditing and Accountability Journal, 10:4, 481–531.


