



Defining Social Accounting

Jack Quarter

OISE, University of Toronto



History of Social Accounting

- ◆ 30 years old
- ◆ Long on critique, primarily of profit-oriented firms
 - narrowness of accounts
- ◆ Short on working models
- ◆ Not applied to co-ops and non-profits



Our Definition of Social Accounting

“A systematic analysis of the effects of an organization on its communities of interest or stakeholders, with stakeholder input as part of the data that is analyzed for the accounting statement”



Definition of Social Accounting

1. A systematic analysis
2. The effects of an organization
3. The communities of interest or stakeholders
4. With stakeholder input as part of the data



1. A SYSTEMATIC ANALYSIS

- ◆ Conventional definitions emphasize “quantitative” presentation of “economic” items
 - “Accounting ... provide[s] quantitative information, primarily financial in nature, about **economic entities** that is intended to be useful in making **economic decisions** of action” (Accounting Principles Board, AICPA)
- ◆ Social accounting rejects the separation between economic and social



1. A SYSTEMATIC ANALYSIS

- ◆ Non-market services have economic value
- ◆ Social economy viewpoint
- ◆ Separation between social and economic artificial
 - Economic effects have social consequences
 - Social effects have economic consequences



2. THE EFFECTS OF AN ORGANIZATION

- ◆ Conventional accounting limited to market transactions specific to the organization
 - Balance of resources to generate a profit
 - Whether resources are being used efficiently



2. THE EFFECTS OF AN ORGANIZATION

- ◆ Conventional accounting excludes “externalities”
 - Tom Lehrer song: “Once the rockets are up, who cares where they come down? That’s not my department, says Wernher von Braun.”
 - Cigarette manufacturers do not have to include cost to society of their products
 - Downsizing corporations do not take a full costing of layoffs, either for their corporation or for society in general



2. THE EFFECTS OF AN ORGANIZATION

- ◆ Conventional accounting excludes nonmonetized inputs and outputs—for example,
 - Social labour (unpaid member contributions) in co-ops
 - Volunteer contributions
 - Environmental impacts
 - “Free” social services



Example: Jane/Finch Community Centre

- ◆ Income statements show that the organization spends a bit more than it receives and it has a small balance, but it omits its social impact
- ◆ A social accounting framework shows that for every dollar invested in the organization, the value added is \$8.43



2. THE EFFECTS OF AN ORGANIZATION

- ◆ Accounting regulations are restrictive about non-monetized items
- ◆ Accountants balk, BUT
 - They make estimates for depreciation and inventory values



THE CHALLENGE

- ◆ Monetizing social inputs and social outputs is the challenge
 - What would the organization have to pay if social labour not provided?
 - What is an appropriate comparison?



Waterloo Cooperative Residence Inc. (WCRI)

- ◆ Members contribute 40 hours a term
- ◆ Valued at \$8 per hour
- ◆ Discounted by 50% for inefficiencies
- ◆ Reduced fee by \$160 to \$2,200



Waterloo Cooperative Residence Inc. (WCRI)

- ◆ WCRI directors contribute 10 hours/month
- ◆ @ \$8 per hour
- ◆ Totaled: \$9,600



Volunteer Contributions

- ◆ External to the organization
- ◆ Concern for community
- ◆ Establish appropriate market comparisons

Junior Achievement of Rochester

- U.S. Department of Labor, National Compensation Survey plus 12 percent
- board of directors, hourly rate for “executives, administrators, managers” —\$31.30
- company coordinators hourly wage rate for “managers in service organizations, not elsewhere classified” —\$26.85

Junior Achievement of Rochester

- Teachers of the Junior Achievement curricula hourly rate for “teachers, not elsewhere classified” —\$25.86
- Special event volunteers hourly rate for “administrative support occupations,” not elsewhere classified —\$12.22



Volunteer Contributions

- ◆ North American Industry Classification System (NAICS)
 - jointly developed by the statistics agencies of Canada, the U.S., and Mexico
 - classifies organizations (e.g., nonprofits) according to economic activity
- ◆ Jane/Finch Community and Family
 - NAICS subsector 624, social assistance—\$13.38



Other Non-monetized Outputs

- ◆ Establishing surrogate values for non-monetized social outputs
 - Skills development: cost of a community college course
 - Emission reduction: 3.2 cents per km
 - Relational capital: \$4,000 per school
 - War refugee housing: \$2,000 forgone



3. THE COMMUNITIES OF INTEREST OR STAKEHOLDERS

- ◆ Conventional accounting statements relate to one stakeholder:
 - THE SHAREHOLDERS!!!
- ◆ The bottom line is PROFIT
- ◆ Other “stakeholders” receive only lip-service



3. THE COMMUNITIES OF INTEREST OR STAKEHOLDERS

- ◆ Social accounting makes other stakeholders visible
- ◆ They appear in accounting statements



3. THE COMMUNITIES OF INTEREST OR STAKEHOLDERS

- ◆ What stakeholders should be included?
 - ACID TEST: Do they make important contributions?
 - ARE THEY PRIMARY?



3. THE COMMUNITIES OF INTEREST OR STAKEHOLDERS

- ◆ Clarkson: “A primary stakeholder group is one without whose continuing participation the corporation cannot survive as a going concern”
- ◆ For co-ops, “members” primary
- ◆ WCRI: residents/members; employees; society; capital; organization



4. WITH STAKEHOLDER INPUT AS PART OF THE DATA

- ◆ Used primarily in social or ethical audits
- ◆ Solicits stakeholder feedback on achievement of organization's mission
 - Traidcraft; The Body Shop; Ben and Jerry's; and credit unions
- ◆ Lengthy reports involving qualitative data and descriptive statistics
- ◆ Not distilled like an accounting statement



4. WITH STAKEHOLDER INPUT AS PART OF THE DATA

- ◆ BUT: Stakeholder input can be included in an accounting statement
- ◆ Expanded Value Added Statement uses stakeholder feedback

CREATING AN INTEGRATED APPROACH

- ◆ Financial statements that integrate social and economic variables
- ◆ E.G.: Co-operative Social Balance
- ◆ members, consumers, employees, civil society, cooperative movement
- ◆ Items are a combination of economic and social





NEXT STEPS

- ◆ Modifying existing accounting statements
 - Using a broader set of variables
 - Costing social outputs such as community impacts
 - Building stakeholders into the financial statements



SOCIAL ACCOUNTING FOR NONPROFITS

- ◆ Socioeconomic Resource Statement
 - Adaptation of a balance sheet

- ◆ Socioeconomic Impact Statement
 - Adaptation of an income statement



SOCIAL ACCOUNTING FOR NONPROFITS

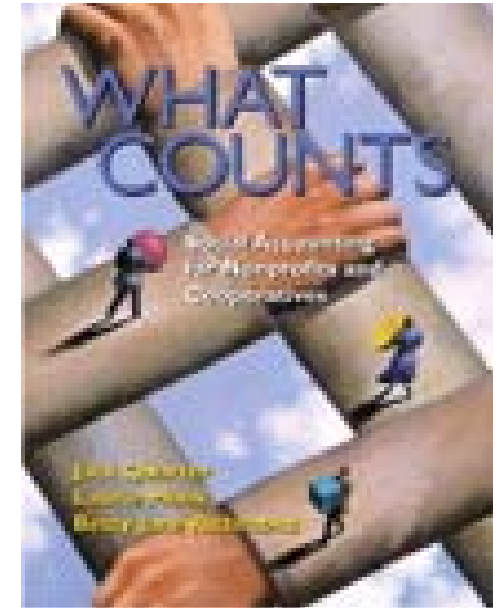
- ◆ Expanded Value Added Statement
 - Adaptation of a Value Added Statement

- ◆ Community Social Return on Investment Model
 - Created for non-profits



New Publication

- ◆ **What Counts: Social Accounting for Nonprofits and Cooperatives**
 - **Jack Quarter, Laurie Mook, and Betty Jane Richmond (Prentice Hall)**





Related Web Sites

- ◆ U.S. Department of Labor, Bureau of Labor Statistics
 - www.bls.gov/data
- ◆ Our project web site
 - <http://home.oise.utoronto.ca/~volunteer>
- ◆ North American Industry Classification System (NAICS)
 - www.statcan.ca/english/Subjects/Standard/index.htm
- ◆ Board of directors' rates, see HRDC Labour Market Indicators
 - <http://lmi-imt.hrhc.gc.ca>



THAT'S IT!!!