INTRODUCTION

As the world changes, new issues continue to arise in business. Business professions involved must be able to adapt to the changes in order to appropriately manage the issues. For example, stakeholders are becoming increasingly interested in the non-financial performance of large corporations to determine an organization's economic, social, and environmental objectives. While the accounting profession is mostly known for its association with the financial aspects of an entity, a relatively new area has emerged known as social accounting. Generally, social accounting can be thought of as the modification and application, by accountants, of the skills, techniques and discipline of conventional (managerial and financial) accounting, to the analysis and solution of problems of a social nature (Seidler and Seidler 1975, ix). Social accounting is often applied to all sectors of business, both public and private including government, non-profit, and corporate entities. Throughout this paper, the focus will be primarily on corporate social accounting and the analysis, known as Corporate Social Reporting (CSR), of a corporation's social performance and its effect on society.

DEVELOPMENT OF CORPORATE SOCIAL ACCOUNTING

The Need for Social Accounting

Decisions made by corporations affect stakeholders both directly and indirectly involved. For example, shareholders, creditors, and employees are often concerned with the financial decisions made by a corporation, thus financial accounting has become a necessity. However, those indirectly involved such as a local community, the general public, environmental and social organizations, and even academia, are equally concerned with the decisions affecting society. Therefore, social accounting has become a necessity as well. Society expects organizations to operate in such a manner so that it maximizes social welfare, thus creating a social contract between the organization and society (Riahi-Belkaoui and Pavlik 1992, 5). To determine how well organizations are living up to that expectation, society has begun to evaluate the social performance of corporations.

Measurement of Social Inputs and Outputs

While financial accounting is concerned with the measurement of changes in the economic resources of shareholders, social accounting measures the change in the general welfare resulting from a specific activity (Seidler 1975, 4). Seidler (1975, 4) states that the business entity remains the focus of the accounting, but the inputs and outputs are defined as consumption of and additions to society's resources, rather than only those resources that the firm pays for or receives in money. A primary concern for social accountants is measurement, mainly what is to be measured and what unit of measurement to use. In order to obtain a complete picture, all social effects of a corporation must be measured. Social effects include the side effects, which are mostly negative, as well as the mainstream effects which are positive (Elliot 1975, 18). Exhibit 1 (Seidler 1975, 11) shows the social income statement that evaluates the favorable and negative social effects created from the production process of a corporation.

EXHIBIT 1
SOCIAL INCOME STATEMENT OF A PROFIT SEEKING ORGANIZATION

	Value added by production of the enterprise
+	Socially desirable inputs not sold
-	Socially undesirable effects not paid for
=	Net social profit (or loss)

According to Seidler (1975, 10), the "Socially desirable outputs not sold" would include benefits such as job training, health improvement of workers and deliberate employment of disadvantaged minorities, where as "Socially undesirable effects not paid for" could include air and water pollution generated by the company and health problems caused by the use of its products. Concepts such as the social income statement give accountants the ability to determine whether certain social effects can be measured. However, a real challenge is finding a unit of measurement that can be used and understood.

Although the dollar is an obvious and accepted unit of measure for financial accounting, Robert Elliot (1975, 19) suggested that for social areas, the quantity to be measured would be quality of life. Currently there is no actual quality of life measurement unit, so accountants must break down quality of life and use a different measurement for each element. For example, since pollution diminishes quality of life, pollution rates would be the unit of measure. Adequate income is also an important factor for quality of life, therefore the level and distribution of personal income would be the appropriate unit of measure in this instance. Using surrogate measurements which are not expressed in common measurement units creates an additional problem when making rational choices (Elliot 1975, 19). Should a corporation for example, cut salaries and jobs to afford more environmentally friendly production processes, or continue to pay higher competitive salaries while polluting the local river? Both affect society's quality of life, yet one may find it difficult to compare pollution rates to the level and distribution of personal income.

A Proposed Framework

To say that social accounting is a developed concept would be untrue. However, the accounting profession and its authoritative bodies that are responsible for developing accounting framework have been working throughout the years to make social accounting an integral part of an organization's reporting. In July 1976, K.V. Ramanathan (1976, 519) published a proposed framework for social accounting in *The Accounting Review* which consisted of three objectives and six concepts. It was based on the idea that the purpose of social accounting was to evaluate how well an organization was fulfilling its social contract. The “social contract” in this context consisted of two distinct roles of a firm (1) the delivery of some socially useful goods and services and (2) the distribution of economic, social or political rewards to social groups from which the firm derives its power (Ramanathan 1976, 519). Ramanathan’s three objectives related to measurement and reporting of a corporation’s contributions to society, while the six concepts simply defined some important social accounting terms including social transaction, social overheads, social income, social constituents, social equity, and net social asset. While referred to in some literature, Ramanthan’s work has not proved to be a reliable framework for social accounting.

CORPORATE SOCIAL REPORTING

Corporate Sustainability Reporting

Organizations realize that satisfying the expectations of stakeholders is as important for sustainability as the need to achieve overall strategic business objectives (Ballou and Heitger 2006, 66). Therefore, corporations have begun to provide non-financial information in the form of corporate sustainability reports (CSR). CSR falls under the category of triple-bottom-line reporting which involves reporting non-financial and financial information to a broader set of stakeholders than just shareholders (Ballou and Heitger 2006, 66). This combination of non-financial and financial information may be due to the fact that users of financial statements need social information to make revenue allocation decisions (Riahi-Belkaoui and Pavlik 1992, 7). Because CSR is directed toward many stakeholder groups, the reports contain various types of information to appeal to the different interests. For example, a corporation’s CSR report may include its environmental, operational, and social objectives, providing all users with the data needed in a single report. A few corporations that currently supply stakeholders with CSR reports include Mobil, Gap, Inc., and Allstate.

Reporting Regulations

Corporate sustainability is often reported according to certain criteria established by outside organizations or a company's internal guidelines (Ballou and Heitger 2006, 66). The Global Reporting Initiative (GRI) is one such outside organization that perhaps has the most dominant reporting regulations. GRI was created in 1997 with the goal of "enhancing the quality, rigor, and utility of sustainability reporting." Its second comprehensive set of guidelines, known as the G3 Reporting Framework, was released in October 2006 and has been widely accepted by businesses as well as accounting regulatory bodies such as the AICPA (Ballou and Heitger 2006, 66). As of October 2006, nearly 1,000 international companies had registered with GRI and were issuing CSR reports using some or all of its standards (Ballou and Heitger 2006, 66). Although not yet recognized by any authoritative bodies, the GRI is likely to someday be the generally accepted standards for CSR reports.

Audit Assurance

CSR reports are often provided to users in conjunction with financial statements. Like financial statements, sustainability reports are now expected to be audited to establish credibility about the information presented. As mentioned before, measurement can be a challenge for social accounting. The same holds true when preparing sustainability reports for corporations. Each stakeholder group has a different focus, thus making it difficult to find a metric system that can be used for each piece of information requested. Although most aspects of CSR reports are quantitative and verifiable therefore making them auditable, some of the measurements may not be reliable enough to audit (Ballou and Heitger 2006, 67). This often leads to audited reports that are limited in scope.

Environmental Reporting

The environment has become a concern for many people and organizations. Stakeholders in society realize that corporations can often have a large impact on the environment, especially in terms of pollution. Therefore, it has become essential for firms to report on the operations that affect the environment. The Committee on Environmental Effects of Organizational Behavior was created by the American Accounting Association (AAA) to develop measurement and reporting methods useful in communicating to internal and external users the effects of a firm's behavior on the physical environment (Riahi-Belkaoui and Pavlik 1992, 18). One of its focuses was the accounting implications that arose from pollution. Although the committee was unsuccessful in its attempt to develop a useful measurement to account for the social costs of pollution, it was able to determine five alternatives for environmental reporting. These included the following:

1. Presenting the environmental control expenses on a separate line of the income statement.
2. Separately disclosing the total environmental expenditures in the cash flow statement.
3. Classifying environmental control facilities and related depreciation separate from other assets on the balance sheet.
4. Estimating environmental controls that may cause extraordinary losses or corrections in prior years and correctly disclosing any material amounts as required by GAAP.

5. Accruing for any environmental liabilities and properly disclosing material effects of environmental control as they arise (Riahi-Belkaoui and Pavlik 1992, 18).

The suggestions above are quite different from other social accounting approaches in that it involves the financial aspects of a firm's operations instead of trying to convey the social performance in non-financial terms. However, using the financial statements as a way to present a firm's social performance could in fact be helpful for users interested in knowing the environment-related expenditures taking place.

Although there are currently not any reporting regulations for environmental accounting, the SEC does require disclosures related to a firm's compliance with environmental requirements. In 1973, the SEC adopted amendments that affected Forms S-1, S-7, and S-9 under the Securities Act of 1933, as well as Forms 10, 10-K, and 8-K under the Securities Act of 1934 (Seidler and Seidler 1975, 177). In essence, the amendments called for more detailed disclosures of any organizations' reporting items affected by the compliance of federal, state, or local environmental laws and regulations. It was called into action shortly after the National Environmental Policy Act (NEPA) became effective. The SEC began to realize that a firm's financial situation is affected by the environment in which surrounds it.

Pollution continues to bring negative attention to business practices and production processes of many companies. Therefore, some businesses in an effort to gain a positive standing with society, have begun to voluntarily supply stakeholders with reports showing their environmental performance. Environmental reports should communicate a comprehensive story of the organization's environmental impacts and performance by providing information about its strategies, progress, and contributions (Staden and Hooks 2007). It can often be found with the annual reports although there is a push for a separate environmental report and/or providing the information on company websites (Staden and Hooks 2007).

CHANGE FOR THE ACCOUNTING PROFESSION

The Role of Accountants

While accountants are an essential part of social accounting, the current level of skills held by accountants alone may be insufficient to effectively analyze and report the social performance of a firm. Robert Elliot (1975, 20) states that the skills essential for social accounting such as economics, engineering, mathematics, law, sociology, and behavioral science are underrepresented in the accounting profession today. This statements suggests two things: (1) accountants should become more actively involved in the study and application of social accounting and (2) many different professions should come together to ensure that social accounting is effective and reliable. While the latter is certainly true, Elliot believed that accountants in both the academic and public setting should take some positive action to become more involved.

Academic Accountants

Because accounting can be a complex field of study, the profession requires a formal education. Although experience plays a huge role in the learning process, education often acts as a stepping stone to provide accountants with the basic knowledge needed to start a career. Even those already practicing in the field are required to complete a set number of hours of continuing professional education each year. For social accounting to become a well-practiced area of accounting, it is essential to broaden the curriculum both for students as well as practitioners. The new curriculum, which would be focused more on societal issues, could facilitate in attracting students outside the conventional accounting mold thus bringing some much needed variation of skills to the profession. Developing research programs will ensure the continued evolvement of the subject.

Public and Corporate Accountants

Although public and corporate accountants are primarily focused on the financial analysis of businesses, it is necessary for them to become acquainted with social accounting because of its large effect on a firm's sustainability. Businesses turn to accountants for information needed to make important decisions mostly because of the trusted knowledge held by accountants. If the profession is willing to open the doors to new entrants who have completed an education and hold the skills crucial for social accounting, better, more efficient practices will emerge.

CONCLUSION

Society is forever concerned with what is going on around them. This is human nature and can not be ignored. Because large corporations have become such a large part of lives, especially in developed countries such as the U.S., their effects are being felt now more than ever. Society expects corporations to act in good faith in their internal and external affairs, although that is not always the case. Therefore, to gain a better understanding of how a firm is performing socially, stakeholders are asking that organizations make this information available. Social accounting involves the measurement of a firm's social performance, in other words, what is being given to society and what is being taken from it. These measurements are considered ambiguous and are often difficult to accurately report. Although many theories and guidelines on the best approach to social accounting have been introduced, there currently is not an authoritative body to regulate it. Corporations have begun to report this information in the form of corporate social reports. Although the reports come in many different forms, two important types are corporate sustainability reports (CSR) and environmental reports. CSR reporting has become accepted worldwide and is being used by a number of large corporations. Environmental reporting has gained some momentum because of increased concerns with pollution and the environment. Both of these reports are not required, however some corporate entities are beginning to understand their importance to stakeholders and are voluntarily supplying the information. With social accounting becoming more prevalent, change for the accounting profession is inevitable. It is essential for the profession to welcome this change with open arms, not only because the quality of knowledge the profession has to contribute is invaluable to the area of social accounting, but for the good of society as well.

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