



SOCIAL ACCOUNTING IN INDIA

Dr Masooma Zaidi

Associate Professor, Institute of Environment & Management, Lucknow

Abstract

Social accounting is a method by which a firm seeks to place a value on the impact on society of its operations. It is a systematic analysis of the effects of the organisation on its shareholders, with stakeholder input as part of the data that are analysed for the accounting statement. It provides tools and guidelines to collect, analyse and monitor financial, social and environment data. The concept of 'social accounting' relates to the manner in which an organisation interacts with its social surroundings. Many corporate, today, are providing information on their social performance in order to demonstrate to their shareholders and public that they are ethical and moral. This paper looks at what social accounting is where it comes from and its present level of development and it also aims to bring out some important social accounting practices followed in Indian firms.

Keywords: Social Accounting; Corporate Social Responsibility (CSR); Cost Benefit Analysis; Expanded Value Added Approach; Social Accounting Matrix

Introduction

There has been an explosion of interests in the company's social responsibilities in the recent years, and the phrase "being a responsible corporate citizen" has already become a core value. The very impact of the corporate sector in terms of finance and employment shows that the well-being of the corporate sector is of considerable significance to the society. In the environment of modern economic development, corporate sector no longer functions in isolation. The company must behave and function as a responsible member of the society just like any other individual. The real need is for some focus of accountability on the part of the management not being limited to shareholders alone but even the society. The acceptance of this concept of social responsibility must be reflected in the information and disclosure that the company makes available for the benefit of the various constituents like shareholders, creditors, workers and the community.

Background of Social Accounting:

The two world wars of this century, and the social and political revolutions which followed them have given great impetus to the study and analysis of macro-economic problems. The basic two related factors helped greatly in the study and analysis of these macro-economic factors. Firstly, there was a tremendous expansion of enterprise of all sorts in the form of private and public corporation and cooperatives; and secondly it was the growing force of organised labour. Unions and other organisations of workers were not only interested in fostering macro-economic queries, but were in a position to assist with them reliable data and information. Up to the beginning of the second world war, all quantitative economic and financial data and all related statistical techniques and methods which were concurrently developed, took the form either of indices of price levels, productive activity and employment or of trends in financial activity (Yanovasky:2006)¹.

It was only during the Second World War and immediately after it that economists and statisticians realised that these aggregate data could not only help greatly in the vigorous and disciplined thinking of theoreticians but could be of immediate practical use and interest to government authorities to large enterprise, to labour organisation and to all other similar decision making bodies.

Three methodologies were soon developed. One system primarily attempts to measure National Income, final product, consumption and accumulation of capital. The second system is largely devoted to the presentation of the inter-industrial process of production and movement of commodities. And the main role of the third system is to show how production process, consumption and investment are currently financed. These methodologies sets of accounts became commonly known as 'Social Accounting Systems' a term originally suggested by Prof Hicks.

Definitions:

Many economists and socialists have contributed in this sector with their works and thoughts. A few well known in this area were:

Kohler defined 'social Accounting' as the application of double entry book-keeping to socio-economic analysis. *Ralph Estes*² states Social accounting as the 'measurement reporting, internal or external of information concerning the impact of an entity and its activities on society'.

In *Sybil Mobley*³ views 'it refers to the ordering, measuring and analyses of the social and economic consequences of governmental and entrepreneurial behaviour'.

The *National Association of Accountants (USA)* defined it as the identification, measurement, monitoring and reporting of the social and economic effects of an institution on society.

Social Accounting is defined by *Richard Dobbins* and *David Fanning* as “the measurement and reporting of information concerning the impact of an entity and its activities on society”.

According to *Ramanathan*⁴ “Social Accounting is the process of selecting firm level social performance variables, measures and measurement procedures systematically developing information useful for evaluating performance and communicating such information to concerned social groups both within and outside the organisation.”

Objectives of Social Accounting

The concept of social accounting gained prominence and momentum as a result of high level of industrialization that had necessitated the corporate to invest substantial amount in the social activities. Main objectives of social accounting are to help society by providing different facilities by enterprise and to record them like:

1. Effective utilization of natural resources

Main objectives of making social accounting are to determine whether company is properly utilising their natural resources or not. To identify and measure the periodic net social contribution of an individual firm consisting of cost and benefits internalised to the firm and externalities affecting social system.

2. Help to employees

Company can help employees by providing the facility of education to children of employees, providing transport free of cost and also providing good working environment conditions.

3. Help the society

To help determine whether individual firms strategies and practices which directly affect the relative resource and power status of individuals, social segments, generations consistent with widely shared social priorities one hand and individual aspirations on the other. Because companies' factories spread the pollution in natural society which is very harmful for society. So, enterprise can help to society by planting the trees, establishing new parks near factory area and also opening new hospitals.

4. Help to customers

If company provides goods to customers at lower rate and with high quality also benefits the society. To provide optimal information to all the constituents of the society to enable them to make decisions regarding allocation of the social resource where optimally implies cost/benefit effective reporting strategy which also optimally balances potential information conflicts among the various constituents of a firms.

5. Help to investors

Company can help to investors by providing transparent accounting information to investors. Firms' strategies and practices that directly affect relative resources can be determined. Because of many objectives are related to safeguarding of natural resources so this accounting is also known as *Social and Environmental Accounting, Corporate Social Reporting, Corporate Social Responsibility Reporting, Non-Financial Reporting, Sustainability Accounting*.

Social Accounting Measures

Undertakings through its annual reports publish the details of their social welfare and effect on society & workforce. (*Sawalia B Verma: 1997*)⁵

I. Cost Benefit Analysis

Social cost benefit analysis is a technique to weigh up the environmental and social benefits and costs of a business investment. It is used to understand community expectations and concerns about the potential social and environmental impacts of a project to enable business to address these and make the project more acceptable. Under this system the undertakings present social Balance Sheet and Social Income Statement. The asset side of the balance sheet depict social investment of capital nature i.e Township, water supply, school, club, road etc. The liability side shows organisations equity and social equations in the form of contribution by employees. Social income statement comprises social benefit and cost of staff community and general public. If social benefit exceeds social cost the resultant is not social income to staff, community and general public. (*Boardman, Greenberg, Vining, Weimer: 2008*)⁶

II. Preparation of separate schedule

Schedules representing employees' benefits and services, social overhead, township maintenance etc are prepared and shown as a part of annexure in the annual general report. Employee benefits and services consist of salary and wages and various social security benefits. Social overhead schedule include medical, educational, canteen and transportation facilities etc.

III. Expanded Value Added Approach

Building on traditional accounting principles, the Expanded Value Added Statement (EVAS) is an innovative tool to account for economic, social, and environmental factors. It provides a way to account for traditionally non-monetised

factors (such as volunteer hours) to provide a better picture of social value creation. Value added can be said that it is the measure of wealth that an organisation creates by ‘adding value’ to raw materials products and services through the use of labour and capital. It can be calculated by taking the value of goods and services it provides and subtracting the cost of its externally purchased goods and services. Under this approach the income accruing to the enterprise after external payments is taken into account. It represents the value added to goods and services acquired by the enterprise as the results of the efforts of the management and employees. From the value of production cost of direct materials and taxes are reduced to get Net Income accruing to the enterprise. Expanded value added approach combines the financial and social data to give a fuller picture to the social and economic impact of an organisation. It includes both monetary and non financial inputs and outputs. (Rao:2001)⁷

IV. Other Approaches

Mention of social activities undertaken by an enterprise in chairman’s speech, directors’ report or auditor’s report. This approach aims at informing the general public, government and its members about the organisations goals with economic goals. Other method is pictorial presentation in annual report of social activities like sponsoring of social and charitable causes and other social welfare activities; supplementing of government efforts effectively; focusing on human elements; ensuring ecological balance, engaging in philanthropic activities undertaken in by the organisation.

Need for Social Accounting

The practise of social accounting is followed only by a handful to enterprise in public sector. (Jahan:2001)⁸That there is greater need for social accounting in India for;

1. The management fulfils its social obligations and informs its members, government and general public.
2. There are certain legal obligations that have to be fulfilled by the business, such as social security obligations and welfare measures etc. The management reforms the public and government about its efforts in this regard through social accounting.
3. Management gets a feedback on its efforts and policies aimed at welfare of the society.
4. Social accounting is also necessary from the viewpoint of public interest group, social organisation, investors and government bodies.
5. Through social accounting the company proves itself that it is not socially unethical in view of moral cultural and environment degradation.

Social Accounting Matrix

Social Accounting Matrix SAM can be defined as an organised matrix representation of all transactions and transfers between different Production activities, factors of production (like households, firms and government), actual or imputed, within the economy and with the respect of rest of the world. A Sam is thus a comprehensive accounting framework within which the full circular flow of income –from production to factor income to household income to household demand and back to production is captured. In a SAM all the transactions in an economy are presented in the form of a matrix as opposed to the double entry format. Each row of the SAM details the receipts of an account while the column details corresponding expenditure. The rows and columns follow the same ordering and hence, a SAM must always be a square matrix. A SAM includes both input-output and national income and product accounts in a consistent framework. Estimating a SAM for a recent year is a difficult and challenging problem (Basanta K Pradhan, M R Saluja, Shalabh K Singh⁹).

Input-output data are usually prepared only every five years or so, while national income and product data are produced annually, but with a lag. To produce a more disaggregated SAM for detailed policy analysis, these data are often supplemented by other information from a variety of sources; e.g., censuses of manufacturing, labour surveys, agricultural data, government accounts, international trade accounts, and household surveys. The problem in estimating a disaggregated SAM for a recent year is to find an efficient (and cost-effective) way to incorporate and reconcile information from a variety of sources, including data from prior years.

Table 1: A simple example of National SAM (Robinson, Cattaneo And Said:2000)¹⁰

Receipts	Expenditure					
	Activity	Commodity	Factors	Institutions	World	
Activity	Domestic sales					
Commodity	Intermediate Inputs	Final demand		Exports		
Factors	Value added (wages/rentals)					
Institutions	Indirect taxes	Tariffs	Factor Incomes		Capital inflow	
World	Imports					
Totals	Total Costs	Total Absorption	Total Income	Factor	Gross Domestic Incomes	Foreign Exchange Inflow

Social Accounting in India

The Sachan Committee in its report in 1978 recognised the need for social disclosures. The concept was relatively new for India and is yet to gain momentum. Tata Iron Steel was the first in India which conducted social accounting with the sole aim to examine and report to what extent company has been able to fulfil its objectives regarding its social and local community.

India may become the world's first country to make corporate social responsibility mandatory. Paths have been cleared for reintroduction of the Companies Bill, 2011, in the monsoon session. If the bill is passed after endorsing all the propositions made by the Parliamentary Standing Committee on Finance, corporate social responsibility (CSR) would become mandatory for the first time in the world in any country.

In August 2012 the parliament has panelled CSR to be mandatory. The statement advocates that those companies with net worth above Rs. 500 crore, or an annual turnover of over Rs. 1,000 crore, shall earmark 2 percent of average net profits of three years towards CSR. In the draft Companies Bill, 2009, the CSR clause was voluntary, though it was mandatory for companies to disclose their CSR spending to shareholders. It also suggested that company boards should have at least one female member. (*Times of India dated 16/10/12*) There is a growing realisation among organisations that it is not merely sufficient to provide funds to support causes initiated by non-profits, and when employees volunteer for a cause, it's a win-win situation for both the organisation and the employee as it helps improving managerial skill and enhancing profit.

Tata Group

Tata Group in India has a range of CSR projects, most of which are community improvement programs. For example, it is a leading provider of maternal and child health services, family planning, and has provided 98 percent immunisation in Jamshedpur. The company also endorses sports as a way of life. It has established a football academy, archery academy, and promotes sports among employees. It offers healthcare services all over the country with programs like rural health development. Tata Steel India won this award for Corporate Social Responsibility from among the following short-listed nominees namely Coca-Cola Enterprises, CSM, Findus Group, Firmenich, Nokia, The Body Shop, Unilever, etc in 2011.

Tata Group also has an organised relief program in case of natural disasters, including long-term treatment and rebuilding efforts. It did laudable work during the Gujarat earthquakes and Orissa floods. It also supports education, with over 500 schools, and also is a benefactor of the arts and culture. It has done abundant work in improving the environment and local populations around its industries.

Aptech

Aptech a leading education player with a global presence that has played a broad and continued role in encouraging and nurturing education throughout the country since its inception. As a global player with complete solutions-providing capabilities, Aptech has a long history of participating in community activities. It has, in association with leading NGOs, provided computers at schools, education to the deprived, and training and awareness-camps.

Infosys

Infosys is aggressively involved in a variety of community growth programs. In 1996, the company created the Infosys Foundation as a not-for-profit trust to which it contributes up to 1 percent of profits after tax every year. Moreover, the Education and Research Department at Infosys also works with employee volunteers on community development projects.

The management team at Infosys continues to set examples in the area of corporate citizenship and has involved itself vigorously in key national bodies. They have taken initiatives to work in the areas of research and education, community service, rural outreach programs, employment, healthcare for the poor, education, arts and culture, and welfare activities undertaken by the Infosys Foundation.

Mahindra & Mahindra

At Mahindra & Mahindra, The K. C. Mahindra Education Trust was established in 1953 with the purpose of promoting education. Its vision is to renovate the lives of people in India through education and financial assistance across age groups and across income strata. The K. C. Mahindra Education Trust undertakes a number of education plans, which make a difference to the lives of worthy students. The Trust has provided more than Rs. 7.5 crore in the form of grants, scholarships and loans. It promotes education mostly by the way of scholarships. The Nanhi Kali (children) project has over 3,300 children under it and the company aims to increase the number to 10,000 in the next two years by reaching out to the underprivileged children, especially in rural areas.

Reliance Industries Limited

RIL's contribution to the community are in areas of health, education, infrastructure development (drinking water, improving village infrastructure, construction of schools etc.), environment (effluent treatment, tree plantation, treatment of hazardous waste), relief and assistance in the event of a natural disaster, and miscellaneous activities such as contribution to other social development organisations etc. RIL plays a pivotal role in supporting Government's initiative towards education of girl child. In Gujarat, under the project "*Kanya Kelvani*", RIL's Dahej Manufacturing Division has extended financial assistance towards education of girl child in the state.

RIL has developed Community Medical Centres near most of its manufacturing divisions to provide comprehensive health services .A unique joint initiative of RIL and National Association of Blind, Project *Drishhti* has undertaken over 9,000 free corneal graft surgeries for the visually challenged Indians from the underprivileged segment of the society. Likewise there are various schemes and social services undertaken by reliance.

Conclusion

The concept of social Accounting emerged in the 1960's when social values and expectations gave rise to a debate about the role of business in society. This debate focused on the nature of corporate social responsibility and gave rise to the possibility that this responsibility could be discharged through a method of social accounting. Social Accounting has become an integral part of good management in India and abroad. Most of the enterprises are making efforts to earn customer loyalty through community development schemes, good corporate governance and by engaging stakeholders, within and outside the company. It is therefore necessary that managements at all level understand the scope and content of social accounting so that they can make value added contributions towards building the company's brand image and reputation.

References

1. Yanovsky, M: Social Accounting systems; Transactions Publishers, 2006
2. Estes Ralph: (1976) Corporate Social Accounting, John Wiley and sons, NewYork, pg 3.
3. Mobley, Sybil: (Oct 1970) Challenges of Socio Economic Accounting, Accounting Review, pp 762-68
4. Ramanathan, K.V: Towards a Theory of Corporate Social Accounting, Accounting Review, July 1976, pp 516-28.
5. Verma, Sawalia Bihari: (June 1997) Social Accounting Practices in India- Management Accountant, pp 445-47.
6. Boardman, Greenberg, Vining, Weimer: Cost Benefit Analysis, Concept & Practice, 3rd Edition, Pearson Education
7. Rao P.M: (2001) Corporate Social Accounting & Reporting, Deep and Deep Publications.
8. Jahan, Noor Firdoos:(July 2010) Social Accounting & Social Responsibility Reporting: An Overview, Vishwakarma Business Review,
9. Basanta K Pradhan, M R Saluja, Shalabh K Singhv: Social Accounting Matrix for India: Concepts, Construction and Applications sage publications new delhi
10. Sherman Robinson Andrea Cattaneo And Moataz El-Said: (August 2000) Updating and Estimating a Social Accounting Matrix Using Cross Entropy Methods; Trade and Macroeconomics Division International Food Policy Research Institute.

Websites:

www.wikipedia.com

www.google.co.in

www.business-standard.com

www.timesofindia.indiatimes.com

www.thehindubusinessline.com

www.ril.com