Brief History of Social Accounting and Audit

Historical roots…

The first use of the term "social audit" is generally attributed to George Goyder in the 1950s. The roots of the idea lay within the perceived need at that time to make business more accountable to the community, and to ensure that the impacts of business – both beneficial and non-beneficial – are understood by society.

Goyder links the growing importance of social audit to the need for society to be able to exert the controls and influence over corporations as they globalise - which in the past could be exerted by local communities over local companies operating locally:

"…..[financial auditing] is a one-sided state of affairs and belongs to the days when companies were small and public accountability was secured….In an economy of big business….there is clearly as much need for a social audit as for a financial audit" (G Goyder 1961 "The Responsible Company", Blackwell and quoted in "Building Corporate Accountability" (p17), Zadek, Pruzan & Evans , Earthscan 1997)

However, arguably, Geddes' definition of social accounting and audit is one of the clearest and fullest…

"Social audit is best understood as a reaction against conventional accounting principles and practices. These centre on the financial viability and profitability of the individual economic enterprise. By contrast, social audit proposes a broader financial and economic perspective, reaching far beyond the individual enterprise….Social audit posits other goals as well as, or instead of, financial profitability….Moreover social audit attempts to embrace not only economic and monetary variables but also – as its name suggests – social ones, including some which may not be amenable to quantification in monetary terms" (Geddes M 1992, "The Social Audit Movement" in Green reporting: the challenge of the nineties, Owen D (ed), Chapman and Hall and quoted in "Accounting and Accountability" (p265), Gray, Owen, Adams, Prentice Hall 1996)

Various accountability factors may be identified as having contributed to the significant, and relatively sudden, growth of social audit in the last decade of the twentieth century.

- Investigative reporting into the (usually negative) impacts of corporations and other institutions on people, on the local community and on the environment. These forms of "social audit" were pioneered by Social Audit Limited in the 1970s. (Social Audit Limited published a number of reports on various companies in the early 1970s. Social Audit Vol 1 No. 1 Summer 1973 outlines "The Case for a Social Audit"). This is a tradition which is continued today, not least by the magazine, Private Eye.

- During the industrial restructuring of the UK economy in the 1970s and 1980s several local authorities, often in association with trades unions, commissioned reports into the likely impact of plant closures on local communities.

- As pressures built during the 1980s about the impact of industry on the environment, standards began to be developed requiring companies (and others) to report on likely and actual environmental impacts.

- The growth of interest in ethical investment led to the need to uncover and better understand just what corporations do and how they use the funds invested in them. The “watchdog” role was taken forward by such organisations as the Ethical Investment Research Service and Ethical Consumer.

- Consumers themselves became more conscious of how their patterns of consumption can affect the actions of corporations and even governments, as the protests about genetically-modified food in the UK testify.

- The movement of corporate social responsibility (CSR) saw companies begin to shift from simply doing “good” things in the community to embrace the notion of improved accountability to stakeholders and the need to explain themselves, if only to maintain a “licence to operate”.

- The idea of “stakeholders” which has permeated language and thinking has opened up an understanding that all organisations affect far more people than was perhaps realised in the past and that these stakeholders have a legitimate right to at least know what is going on, if not to have some influence.

- The introduction of the concept of “best value” in the UK re-introduced the legitimacy of recognising “softer” outcomes as well as “hard” outputs at the same time as making it more essential that there is some way of accounting for and reporting on that “softer” performance. [This trend is perhaps superseding an earlier (1980s and1990s) “audit explosion” which sought to count everything and establish performance indicators linked inexorably to Pounds Sterling as the only valid measure of value.]

The community and social economy sectors….

The community sector was early in the field of developing practical and workable methodology for social accounting and social audit.

In Scotland, Strathclyde Community Business Ltd (SCB) recognised the need to understand, account for and report on the social benefits of the community businesses which were being established in the 1980s throughout Scotland. SCB’s thinking and experimentation led to what became known as “the Scottish model” which, blended with the experience of the New Economics Foundation (nef) working with Traidcraft plc, was published later in “Social Auditing for Small Organisations: the Workbook” (1996). Much of this work was based on “Measuring Social Wealth” by John Pearce and published by the nef (c1994). The social accounting and audit model promoted by SAN derives from the Scottish/nef model.

In England, the Industrial Common Ownership Movement (ICOM) through its Beechwood College near Leeds developed during the 1980s a social audit model aimed in the first instance at worker co-operatives. This model was piloted in the early 1980s and was developed by the Social Enterprise Partnership into the Social Audit Toolkit *("Social Audit Toolkit", Freer Spreckley, Social Enterprise Partnership 2000)* and used within the community sector, especially in the context of a number of transnational European programmes.

In the 1980s both ICOM and Community Business Scotland (CBS) included a social audit clause in the model constitutions which they were offering to the co-operative and community enterprises they advised. It was quite common practice in the UK for community-based organisations to include the commitment to do social accounting and audit within their constitution.

In 2005 UK legislation created a new form of social enterprise structure, the Community Interest Company, which requires such companies to report annually on their community and social benefit.

From 1990 to 2005 the practice of social accounting and audit expanded in the community sector.

- The Scottish model which consisted initially of eight stages was tested in the early 1990s with community enterprises in Lothian Region in Scotland and also with worker co-operatives in Nottinghamshire.

- In 1993 a major conference was held in Edinburgh called "Counting Community Profit" which examined in plenary and workshop sessions the needs and methods to assess social and ethical performance. [Out of the conference was formed AccountAbility – the Institute for Social and Environmental Accountability – see later]

- The Beechwood model, as developed and adapted by the Social Enterprise Partnership into the Social Audit Toolkit was used by a number of social enterprises in the English Midlands and in conjunction with an Open College Network (OCN) accredited course in the Bristol area.

- In Northern Ireland the Co-operative Development Agency (known as NICDA – Social Economy Agency) promoted a training course in social accounting and auditing in 1996 which was accredited by the OCN. The model used drew both on the Scottish/nef and the Beechwood models.

- In Liverpool a Social Audit Initiative was launched by the CBED Unit (Community-based Economic Development) of the City Council in 1996. This initiative made use of an updated version of the Scottish/nef model and an OCN course was accredited in 1999. The Liverpool, later Merseyside, programme ran continuously until 2004 with over 200 people completing the OCN course.

- The New Economics Foundation (nef), in association with the Association of Chief Officers of Voluntary Organisations, attracted lottery funding to run a pilot social audit programme for 13 voluntary organisations throughout the UK (Social Auditing for Voluntary Organisations – SAVO) between 1998 and 2000 *("Charitable Trust: social auditing with voluntary organisations", Peter Raynard and Sara Murphy, ACEVO & nef 2000)*. nef was also associated with a pilot programme with four English housing associations, funded by the Housing Corporation.

- In Scotland Community Business Scotland Network (CBSN) launched a Social Audit Programme in 2000 with two clusters of community organisations undertaking training and preparing social accounts in Craigmillar (Edinburgh) and in rural Aberdeenshire and Moray. A continuing series of training workshops was organised around the country and further clusters supported in Fife, in Castlemilk (Glasgow) and in Easterhouse (Glasgow).

- In November 2001, CBS Network and Social Enterprise Network (SEN) Merseyside published the Manual, Workbook and CD on Social Accounting and Audit for Community Organisations. This Manual proved to be highly popular and has been used extensively by community and social enterprises.

- The nef assumed the role of promoting social accounting and audit in all sectors from the early 1990s and, working with Traidcraft plc who were the first UK company to publicly commit to doing and publishing a social audit (in 1992), developed and refined the methodology for use within the corporate sector. The Traidcraft social audits have become models of good practice and their published summary versions have been readily available. Today the full social accounts may be viewed on the Traidcraft website.

- Traidcraft and nef can be credited in particular with recognising the complexity of stakeholders associated with organisations and developing stakeholder consultation and dialogue as a key ingredient in social accounting and audit. They have also experimented with various methods and styles of undertaking the actual year-end audit, including using the company's financial auditors. They set standards of successfully blending quantitative and qualitative information in the published social audit reports and of disclosing the findings of the social accounts through publication to stakeholders and to the general public.

- In 2000 the Social Audit Network (SAN) was launched at a symposium held in Edinburgh. SAN still circulates a monthly circular to its growing email network of members, manages a register of approved social auditors, runs training courses and publishes a directory of social accounts which may be accessed by interested people.

- From 2000 to 2005 social accounting and audit was adopted by growing numbers of social economy organisations and the cluster model of training and support as pioneered in Liverpool has proved a popular and cost-effective way of doing it. In the past UK "hot-spots" included: Devon and Somerset (with the CEU Ltd); Wales (with

SAN and Cylch – the Wales Recycling Network); East Midlands (with CBS Network and Social Enterprise East Midlands); NE England (with the Sustainable Cities Project of Northumbria University); NE Scotland (with the Rural and Environment Action Project) and Easterhouse, Glasgow (with CBSN and the Greater Easterhouse Development Company). In fact there were so much happening at that time that it was not possible to record here all the social accounting initiatives in the third sector – nor indeed is it possible to know all that is happening. The experience was rich and diverse and a challenge for those involved to ensure that lessons learned can be lessons shared and to develop common standards that are relevant and appropriate. SAN's monthly Circular tried to track developments.

- Many other community-based organisations are known to have developed their own styles of social accounting and audit, for example: the Black Country Housing and Community Services Group; Total Coverage (a workers co-operative in Southampton); Arts Factory in South Wales; the Shetland Community Enterprise Network.

- From 2003-05 a Quality and Impact Project, led by New Economics Foundation, formed a major part of the Equal Programme of Social Enterprise Partnership GB, a consortium of social enterprise agencies. The Q&IP part sponsored the revision of the *SAN Social Accounting and Audit Manual and CD (2005),* supported the development of various new social accounting tools and published the *Proving and Improving toolkit*. These tools included the Development Trust Association Checklist, the Performance Dashboard for social firms, the Key Performance Indicators for co-operatives and an early exploration into Social Return on Investment (SROI).

- Despite the SAN Social Accounting and Audit Manual being widely available, social accounting practitioners became aware that there were barriers to social accounting and audit being applied. This led to a research project carried out by SAN which resulted in the Really Telling Accounts (2008). This research highlighted the reasons why social accounting and audit was not being universally adopted and led to revisions being made to the Manual (2005).

- In 2011, following further consultation within the community sector, SAN published Prove, Improve, Account: New Guide to Social Accounting and Audit (2011). The new Guide include reference to other frameworks and tools; placed more emphasis on outcomes (as well as outputs); revised the reporting requirements to make it more accessible to smaller organisations; and revised the audit process.

- In Europe, social accounting and audit has featured in a growing number of EU funded transnational programmes using both the Scottish/nef and the Beechwood/SEP models, with increasing evidence of cross-over or 'convergence' between the two. A further trans-national project (CONSCISE 2000 – 2003) explored how social accounting may be used to measure and report on the use and growth of social capital.

- In Italy the social co-operative movement has developed its own form of social balance sheet.

- Further afield, COMMACT Aotearoa ran pilot programmes for community organisations in New Zealand, adapting the Scottish/nef model and included training for people to become approved as SAN Social Auditors. Community organisations in India, Nepal, the Phillipines, South Africa and Canada are amongst the many others who have experimented with appropriate forms of social accounting and audit to suit their needs.

The rise of social enterprise and Social Return on Investment (SROI)….

Since 2005 there has been a massive increase in interest around social enterprises. The EU has a proposed definition of social enterprise which is…

> *Social enterprise means an enterprise whose primary objective is to achieve social impact rather than generate profit for owners and stakeholders. It operates in the market through the production of goods and services in an entrepreneurial and innovative way, and uses surpluses mainly to achieve social goals. It is managed in an accountable and transparent way, in particular by involving workers, customers and stakeholders affected by its business activity.*
> *(European Union: Proposed Definition (2011))*

There is an on-going debate about what is, and what is not a social enterprise.

With this increased interest in social enterprise, there was a recognition of the importance of measuring or accounting for their social purpose. The Quality and Impact Project in 2005 was designed to collect and develop information around methodologies in this area of accounting for social, environmental and economic impacts.

Social Return on Investment (SROI) was an approach that was the Q&IP was keen to develop and at one stage there was discussion on how SROI could be blended with social accounting and audit. SROI was introduced into Europe in 2002 from the Roberts Enterprise Development Foundation in the USA and it was trialled in Scotland with 12 projects as part of EU project.

In around 2006 SROI UK was formed which is now the international 'SROI Network'. The SROI Network took a different approach to SAN and influenced both the Scottish and UK governments of the need for all organisations with a social purpose to apply SROI as a way of explaining their social value. This led to the SROI Project 2009 – 2011 which significantly raised awareness of SROI within the third sector and wider afield.

SAN was keen to maintain links with SROI UK and sponsored two pivotal meetings in Edinburgh (2008 and 2009) that hoped to bring the two approaches together. Initially, it was hoped that the two approaches would share the same principles and this has happened to some extent. SAN revised their original principles which had been formulated in the 1990s following the Counting Community Profit Conference in 1993 so that they chimed with the developing SROI principles. As it happened, both SAN and SROI Network have further developed their own principles – although they remain, in the main, very similar. The main point of divergence was that SROI methodology requires a 'financialisation' of all outcomes; while for social accounting and audit this is not a requirement.

This increased interest in measuring social impact has led to an explosion of organisations, universities, consultants operating in this area. There is now the Social Impact Analysts Association (SIAA), the Centre for Measuring Social Impact in Australia and numerous other networks and bodies promoting the measurement of social impact.

Ethical business and private corporations….

Within the field of ethical business, the practice of social accounting and audit has been taken up, following the lead of Traidcraft by such companies as The Body Shop; Ben 'n' Jerrys; the Co-operative Bank; Co-operative Insurance Services; London and Quadrant Housing Trust and the VanCity Credit Union in Canada – amongst many others.

The process has also been adopted with increasing enthusiasm by the private sector with reports published by a wide range of large companies: Camelot; Shell International and Shell UK; Diageo; United Utilities; Rio Tinto Zinc; Novo Nordisk; Excel Industries (India), to name but a few.

There is an important distinction to be made between the role and purpose of social accounting and audit for the social economy sector and (some) ethical businesses such as Traidcraft on the one hand; and for private corporations on the other. For the former their social or ethical purpose is their *primary purpose* and their business and financial/commercial activity is what they do in order to fulfil the primary purpose. Thus it is essential that they know if, and how successfully, they are achieving that primary purpose – and with what impact. Social (and ethical and environmental) accounting provides that information and the social accounts (and subsequently published report) report on that primary purpose which is their core business.

For corporations however their primary purpose is about growing share value and increasing returns to shareholders and the social accounts can be no more than an exercise to demonstrate corporate social responsibility, with an eye on maintaining "the licence to operate". Stakeholder consultation and dialogue become "managing stakeholder relations", so that the primary purpose may be better achieved. At its best it does report widely and frankly to stakeholders about the good news and the bad news, at its worst it may become no more than a public relations exercise. *("Corporate Spin – the troubled teenage years of social reporting, nef 2000)*

So far corporate social auditing has tended to be a European and North American phenomenon although it is slowly developing worldwide. In Scandinavia a similar process, Ethical Accounting, evolved from the Copenhagen Business School at much the same time as the nef/Traidcraft social audit work was developing and has been

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extensively used in both the corporate and public sectors in Scandinavia. *("Building Corporate Accountability", chapters 5, 9 &10, Zadek, Pruzan & Evans 1997)*

In the public sector…..

Other than in Scandinavia, there has as yet been little experience of social accounting and audit being adopted within the public sector. The British Department for International Development (DFID) undertook a feasibility study (1998/9) but decided not to implement the proposal that the Department undertake a social audit of itself. A small unit within the Liverpool City Council (the LETS Development Team) undertook a social audit in 1997/8 and again in 2000/01 as are additional units including the Council's Social Economy Team and Arts Unit.

Otherwise, there are no other known examples of the public sector engaging with social accounting and audit for itself. Although there is increasing interest being shown in the process by public sector agencies *as something they would like the bodies they fund to do*. The procurement guide published by the DTI Social Enterprise Unit in 2004 recommended social accounting as a way in which social enterprises might demonstrate their added value when delivering public services.

Herein lies a dilemma for the community sector. Social accounting and audit should be an empowering process, not a means of control. The organisation defines its own objectives and values and determines – along with its stakeholders – the indicators to be used to measure performance and impact. The social accounts report on all aspects of the organisation's work and performance, not just on those aspects for which it receives funding. For social accounting and audit to work effectively, the funding stakeholders have to come to see themselves as one group amongst a number of stakeholders and to understand (and value) the different perceptions and priorities that different stakeholder groups have. Social accounting and audit will only be empowering if all stakeholders agree to hear the voices of each other and allow the organisation to act accordingly. That empowerment will be debased if one stakeholder group were to seek to determine what the social audit should include and to use it for its own purposes rather than for the benefit of the organisation.

Social Audit Network and global networks….

A global movement needs some form of global network. One was established, mainly for the corporate sector, in 1996 in the form of the Institute of Social and Ethical Accountability (ISEA) usually known as *AccountAbility*. ISEA grew from the Counting Community Profit conference and built on the earlier work of nef, Traidcraft and CBSN and other pioneering companies such as the Body Shop, Ben and Jerrys and Shared Earth. In 1999 ISEA wrote its AA1000 framework standard outlining the criteria for social auditing and this was revised again in 2003.

Based in London, ISEA has a worldwide membership and seeks to build up its global network, to develop agreed standards for social audit, to accredit training programmes

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and to accredit the members of what it sees as a “new profession” of social and ethical accountants and auditors.

In September 2000 at a symposium held in Edinburgh for social accounting and audit practitioners in the social economy sector it was agreed to establish a *Social Audit Network* (SAN). SAN has currently an email network of over 1000 members throughout the UK and overseas and maintains a register of social auditors who are approved to chair social audit panels and issue social audit statements as well as running training courses and publishing a directory of accessible social accounts.

With the expansion of the SROI Network and other organisations interested in measuring social impact, SAN has lost its central position as the main organisation advocating that organisations with a social purpose should account and explain their performance and impact. The passing of John Pearce, who worked tirelessly in this area from its pioneer stages in the 1980s, deeply affected SAN. Coupled to this was the passing of Mike Swain who was the Chair of SAN from 2006 – 2011. The loss of both these personalities deeply affected the organisation and it is only now that SAN is re-grouping and promoting itself more.

SAN continues to promote and support the application of social accounting and audit and has close working links with a sister network in India (SAN India) having worked extensively with the NGO sector in India. SAN in Scotland supported the development of SAN India using an initial grant from Lloyds TSB. Also in 2012 SAN Korea was launched and SAN also continues to have links with organisations in South Africa, Australia, New Zealand.

John Pearce (2005)
Updated by Alan Kay (2012)

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