Social and ethical accounting in the community sector

The purpose of this article is to give a sense of the scale of social and ethical accounting practice in the community sector; to identify two fundamental differences between developments in this sector and in the corporate sector; and, to discuss some key issues which are top of the current agenda including, not least, the question of standards and accreditation.

A brief history

The community sector was early in the field of social and ethical accounting. In the early 1980s, the Industrial Common Ownership Movement (ICOM) published through its Beechwood College a social auditing process devised especially for co-operative enterprises. The community business movement in Scotland was, at the same time, exploring ways in which the social benefit and impact of community businesses could be effectively assessed and reported in order that social value was put into the balance along with commercial success (or failure). By 1984, Strathclyde Community Business was beginning to develop a model process which might be used by both community enterprises and by other community organisations. Both ICOM and SCB developed social audit clauses for incorporation into the model constitutions which they were recommending. Since those first steps, much experimentation has taken place and much experience gained.

At the beginning of the 1990s, a small grant from the Calouste Gulbenkian Foundation enabled the developing 'Scottish' model to link with the pioneering work which Traidcraft and the New Economics Foundation (NEF) had been undertaking to produce Traidcraft's first set of social accounts in 1992. The result of this funding enabled further collaboration, the result of which was the Social Audit Workbook published by NEF in 1995. Simultaneously, the Social Enterprise Partnership was developing the 'Beechwood' model, published by them in 1997 as the Social Audit Toolkit.

More recently, NEF managed the SAVO project (Social Auditing for Voluntary Organisations) which involved 13 organisations carrying out facilitated social audits. The report of this project was published at the end of November 2000. Other examples of social and ethical accounting in the community sector include the PHASE project undertaken in 1999 by the Penwith Housing Association (see the article by Ian Birchmore, 'The contribution of internal audit to stakeholder engagement', in AccountAbility Quarterly, Issue No. 12), as well as various other one-off social audits with larger NGOs.

However, the focus of public attention during recent years has been on the development of social and ethical accounting within the private or, corporate sector. There have been a growing number of social reports by large companies around the world and these have captured the headlines – and the columns of AccountAbility Quarterly (AQ). Unfortunately, social and ethical accounting in the community sector has slipped out of sight. Thus the opportunity to redress that imbalance in this issue of AQ is very welcome.

Examples of community sector initiatives

In Liverpool, a Social Audit Initiative has been running since 1996, promoted by the City's CBED Unit (Community-based Economic Development). Now into its third phase, more than 20 community organisations have produced social accounts, some now into their fourth year, and more than 20 people working in the community sector have been trained as social accountants.

In the last year, a course accredited at level three (A level equivalent) has been approved by the Merseyside Open College Network and successfully delivered, with six social accountants qualifying. Five of these are now delivering the same course to a new group of 15 trainee social accountants from the community sector in the city.

As an integral part of the Open College course, a new Manual and Workbook have been written to update and supersede the old NEF manual, incorporating the growing practical experience of the past five years. Two companion discs have also been prepared to give both trainers and social accountants the model frameworks and templates they need, together with practical case study examples, sample questionnaires and information on other, more participatory stakeholder consultation techniques. As well as being tested in Liverpool, the new Manual is being tested as part of a transnational action-research programme in Scotland, England, Sweden, Germany and Spain.

In Scotland, Community Business Scotland Network (CBSN) who participated in the NEF SAVO programme runs a rolling programme of one day workshops around the country and is currently working with two clusters of community organisations who are preparing social accounts for the current year. The clusters are in Moray and Aberdeenshire and in the Craigmillar area of Edinburgh. This programme has been part-funded by the Gulbenkian Foundation. A third cluster is due shortly to start in the Castlemilk area of Glasgow and an accredited training programme is to be introduced next year.

In Northern Ireland, the NICDA Social Economy Agency has been running regular Open College accredited training courses in social accounting since 1996 serving both community organisations and trainee social accountants from north and south of the border. NICDA has also participated in a number of transnational social accounting programmes with partners in different European countries.

The Social Enterprise Partnership has both participated in transnational programmes and worked with various groups of organisations in England, most recently in the Bristol area. They offer regular training workshops and have had their Toolkit process accredited also with the Open College Network. An updated edition of the Toolkit was published during 2000.

The extent of social and ethical accounting practice within the community sector

No one knows the extent of social and ethical accounting practice within the community sector. Just recently, I learned of a cluster of five organisations in Cumbria preparing social accounts for audit in spring 2001 under the guidance of the Cumbria Voluntary Sector Training Forum. There are many other organisations around the country, which have experimented with one model or another and some, like the workers' co-operative Total Coverage in Southampton, which have devised their own personalised system.

World wide the practice is becoming embedded into different cultures, with models being adapted to suit local circumstances. Thus the process developed in New Zealand (see the article, 'Social accounting in New Zealand' by Lindsay Jeffs in this issue) has acquired some of its own characteristics, distinguishing it from the NEF/Scottish model on which the work was originally based.

Recently, COMMACT India and COMMACT UK have proposed an action training programme for community organisations in India. Part of that proposal involves adapting the model to suit the Indian context. The first community enterprise, Creative Handicrafts in Mumbai, has committed itself to starting their social accounts from 1st April 2001.

There is an urgent need to map the experience in the community sector so that there can be better mutual learning and collaboration. A symposium organised by CBS Network last September in Edinburgh attracted over 30 social accounting practitioners from the community sector. As a result, an informal Social Audit Network has been set up and a commitment made by those present to try to strengthen the community voice in the global social accounting forums.

Core business and cost – two important differences between the community and corporate sectors

At the symposium in Edinburgh, two important differences were highlighted between social and ethical accounting in the community sector and in the corporate sector. The first is conceptual, the second practical. For the community sector (and for truly ethical businesses also) the social accounts are about the organisation's 'core business'. For the community or ethical business, it is the social and ethical purpose which takes precedence, and successful commercial performance is necessary only to make possible the intended social impact. Thus the social accounts tell the organisation whether it is achieving what it set out to do, at the same time as practising accountability towards its stakeholders.

For the profit-making and distributing organisation, the 'core business' remains whatever its business is and the report on that core business is about growth, return on investment, share value and so forth. The social accounts are, by definition, an ‘add-on’. At their best, they represent an honest attempt to be accountable and to introduce ethical and social values into the running of the business. But, at their worst, they are no more than part of a process of ‘managing stakeholder relations’ in order to maintain the company’s licence to operate, the process often being driven by the Public Relations Department.

The practical difference is to do with cost, or rather the amount of resources available to spend on social and ethical accounting. In the community sector, resources are severely limited and it has therefore been a question of developing processes which are competent and credible but which can be managed by the slender resources available to the organisation. Even if social accounting is eventually recognised as the preferred method of reporting to all stakeholders and therefore able to command a budget line of its own, there will never be the scale of resource available in the community sector to compare with corporations and their dedicated departments, external consultants and glossy publications. An article, ‘Stakeholder dialogue – the importance of principles and preparation’ by Alison Crowther, which appeared in AQ 12, reported the case of a single stakeholder consultation exercise by focus group costing £4000 – most community organisations would expect to get the whole process done for that amount, including the audit and the publication of the report!

Diversity of social and ethical accounting practice

In Edinburgh we also noted the diversity of the present state of practice in social and ethical accounting. Although, in the community sector, there are two broad ‘models’ (‘Beechwood’ and the ‘Scottish/NEF’ model) in practice each organisation that prepares social accounts prepares them to suit its own requirements. In other words the models tend to be there to guide and facilitate rather than to prescribe. It is noticeable that where people have been exposed to both, they tend to ‘pick and mix’.

Social and ethical accounting is a fast-moving field in which we are all learning something new each day. Thus in Moray and Aberdeenshire the community groups have introduced participatory rapid appraisal techniques into their stakeholder consultation processes and this is now being copied elsewhere. Nobody can yet claim: ‘This is how it should be done’; at best, facilitators like myself can say ‘This is how others have done it’. It is important to respect the diversity of approaches and understand that we are taking part in an evolving practice. That reinforces the need for an effective mechanism being in place to allow networking to happen, to encourage mutual learning and to permit honest sharing.

Within the diversity there is, of course, much common ground. There is agreement about what social accounting is seeking to do, the values and the principles are described in similar words by different practitioners and the processes differ in detail, rather than in significant substance.

Common elements of social and ethical accounting practice

- clarifying values, key objectives and what is done to achieve them;
- developing ways of involving and consulting stakeholders about performance; and,
- maintaining competent records and documentation.

The watchwords are accountability (to a multiplicity of stakeholders) and improved planning and organisational management.

Sometimes the consequences of social accounting can be unpredictable. The Auckland Unemployed Workers' Rights Centre (AUWRC) embarked on the process as one of the COMMACT Aotearoa pilot group. Early on, they stuck at the foundation stage of clarifying their values and core objectives. Many hours of discussion and debate later they concluded that the objectives of twenty years earlier had either all been achieved or successfully passed on to other 'second generation' organisations which AUWRC had spawned. As an organisation they had failed to identify new objectives, other than to keep the Centre going because it existed. That, they concluded, was not a sufficient objective and quite contrary to their values and so they took the decision to wind up.

A hard decision to take, and not the expected consequence of engaging with social accounting! Nonetheless it demonstrated the potency of the process and how it may empower an organisation to take tough decisions. For social accounting is about empowerment: enabling organisations to take control of their affairs, to determine their values and objectives and to use the indicators, legitimised by the social book-keeping and stakeholder engagement processes, which give them the information they need both for management and for accountability.

The need for standards

Building from that common ground, but at the same time respecting diversity, there is a need to develop *standards*, not in order to straitjacket practice and stifle experimentation, but to ensure credibility based on recognised quality. Quality standards have to be set, agreed and monitored if they are to be of any value.

Within the community sector, the urgent need for agreed standards revolves around three key areas.

QUALITY STANDARDS – THREE KEY AREAS

- agreement about the content of a competent set of social accounts: what must be there, what might be optional?
- agreement about minimum standards for the processes used to gather information (especially qualitative) for the social accounts;

- agreement about how the audit itself is conducted and what, at a minimum, must be done and how.

In Liverpool and in Scotland we believe we have developed an effective Social Audit Panel system which is rigorous and therefore brings credibility, but which is also constructive and supportive of the organisation whose social accounts are being audited. At the same time the process is modest, and therefore realistic, in terms of the time and resources needed to complete it.

How are standards agreed?

The unresolved question is how are these standards to be agreed? Who can act as the broker with both the necessary skill and knowledge, and the confidence of the community sector? The setting of standards for the community sector should come from the experience that has been gained within the sector.

Monitoring of organisations to check compliance with standards must be conducted by a body which, at least, has the confidence of the sector, and which preferably has a recognised channel of accountability to the sector, perhaps via a multi-agency partnership. It is certain that many in the community sector would resist, as the overseeing body for standards, a body dominated by the corporate sector and academia. There are other options to explore. One might be to develop the embryonic Social Audit Network into a self-regulating association for social and ethical accounting in the community sector. Another might be for AccountAbility to encompass, perhaps by means of separate but related wings, the needs both of the community and the corporate sectors, as well as the possibly different needs of the public and small business sectors.

Training

Questions of ‘who?’ and ‘how?’ also arise in respect of training. Already three accredited courses are operating in the community sector, with others likely to be established soon. As the dialogue between AccountAbility and the sector is only now beginning, it is not yet clear how well AA1000 can serve the community sector, nor what the interface between AA1000 and the existing training provision might be.

Training needs to be appropriate and accessible. The training courses currently being promoted within academic institutions are beyond the budget of the community sector and do not have the locally focussed action-training approach with peer group support, which is probably more appropriate in the community context.

Mandatory or voluntary?

A key issue here is: how can social and ethical accounting become embedded both within the community sector itself and within the institutional and funding frameworks within and with which community organisations have to work. Community organisations which have engaged regularly with social accounting seem to quickly see it as an integrated process which brings together much of what they already do by way of information gathering, stakeholder consultation, annual reporting, strategic reviewing and forward planning. The one process provides the information needed by both external and internal stakeholders and allows all to see how the organisation is developing and to understand the context in which management and other decisions have to be taken. In this way, it can replace both the annual plan and the annual report and bring together social, environmental and financial dimensions.

A further issue to address is how to achieve buy-in from some external stakeholders, especially those funding stakeholders who often assume a position of control. Can they come to accept a position as one group of stakeholders amongst several, all of whom may have differing demands or expectations of the organisation and whose perception of value may well vary? More funding agencies are now showing interest in social accounting, some because they see it as a means through which they can really understand the true impact of the organisations they support, others more because they see it as an effective way of strengthening their control.

There is a danger that social accounting might become mandatory by the back door, imposed by funders and defined by their requirements, rather than by the balanced needs of all stakeholders. Maybe making social accounting truly mandatory would resolve that difficult dilemma. Were society to say that all organisations - public, private and community - should produce social accounts to agreed minimum standards, that would signal recognition of the importance both of the process as well as of the need to understand and value social impact. It is a contentious issue, but on balance I think my vote is for mandatory social accounts, properly supervised by one or more bodies which properly reflect and are accountable to the various constituencies.

John Pearce
Community Enterprise Consultancy and Research, and
Community Business Scotland Network,
Scotland