Social accounting and social audit: are we ready?

Sustainable development and corporate social responsibility (CSR) are catchphrases that are generating a lot of buzz these days. What is missing from the conversation is the discussion on how to put in place the proper mechanisms to monitor corporate involvement in environmental and social activities. What we need is social accounting. Social accounting provides a transparent account of how corporations are responding to societal problems and concerns. It also gives corporations’ stakeholders the satisfaction of knowing that they are not involved in any form of socially undesirable or irresponsible activities.

As Malaysia moves forward with the New Economic Model (NEM), of which two of the thrusts are sustainability and inclusiveness, social accounting becomes increasingly important to ensure that the aims of the NEM are taken into account by all institutions, organisations and corporations in the country.

While the ultimate aim of the private sector is to maximise profits, corporations also have a moral responsibility to ensure the well being of their community and environment. After all, without society’s support, private enterprises cannot prosper. Major disasters such as the BP oil spill in the Gulf of Mexico and the Bhopal gas tragedy at the Union Carbide India Limited pesticide plant were the result of corporate activities. Businesses must be held accountable for their activities and its damaging consequences.

Social accounting will provide companies with the opportunity to demonstrate good governance and show the public that they are concerned not merely with self-interests but also take into account the community’s interests. Furthermore, social accounting will also enable companies to ensure that their CSR activities and programmes will not jeopardise their business prospects and bottom-line.

Peter Drucker once wrote an interesting article about ‘do well to do good’ or ‘do good to do well’. Do well to do good means you make as much money as possible and after that you become a philanthropist. However, I think in the current global scenario if you want to be successful, it is important to do good for you to do well; because if you do good people will support you and when they support you, you will prosper.

Many people think Bill Gates did well and then did good but I think it was the opposite. He was trying to solve an IT problem and that resulted in Microsoft, which is how he became wealthy. Similarly, Muhammad Yunus was trying to do good when he founded Grameen Bank to help the rural poor and this led to the establishment of a new microfinance institution.

Aside from social accounting, we also need social audit to enforce regulation. Basically, social audit is a way to check or verify the implementation of corporate social responsibility activities in the community.

In France, they have a law that stipulates that business organisations of certain sizes are expected to allocate a small percentage of their returns for socially responsible activities. Say for example, one per cent of an enterprise’s total revenue is to be spent on social or environmental related activities: that means if a company has a turnover of €100 million (RM400 million), under the law the company will have to allocate €1 million (RM4 million) for CSR activities. When the sum is allocated, there must also be an audit on how the money is spent for the CSR activities. In other words, there is an audit on the social accounting.

In France, CSR is also clearly defined in the sense that the recipients of the contributions have been specified, for example higher learning institutions, hospitals, and so on. So, CSR contributions are not given to simply anybody.

We need to have our own policy and structure for CSR in this country. For example, if PTPTN is the authorised money lender for university students, companies should be allowed to contribute to PTPTN. Then, the government will not have to burden itself with loans to give to PTPTN, of which only a low percentage of students are paying back. This can be considered a CSR.

Or companies can be allowed to make contributions to the Social Welfare Department to channel to various organisations and charities in need, such as old folks home, orphanages, and associations for disabled individuals. Not only will this help reduce the government’s burden on these issues, it will also enable the private sector to play a role in nation building. The government can provide tax benefits to encourage companies to make such contributions.

Without a structured social accounting and social audit policy, people will prioritise their self-interests when it comes to CSR. As a result, truly deserving causes may not get what they need. It is also important for providers of higher education in accounting and finance to see how social accounting and social audit studies can be incorporated into the curriculum so that in the future we will have accountants with the expertise to handle social accounting and social auditing.

With a structured system, we can ensure that every company, whether large or small, participate in some form of CSR. The idea is to get everybody involved no matter how small the contribution. This is important because as we move forward, we need to manage our resource allocation - both financial and human capital - efficiently in order to meet the challenges of being a developed nation and this includes ensuring the well-being of our people and environment.

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