

Accounting for Social Responsibility of Business

By

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A business organisation is a social unit for two reasons: first, its activities vitally affect the society and its members. This is because of the goods and services that it produces and sells and of the fact that large numbers of people spend the major portion of their adulthood working in one organisation or another which, in turn, moulds the way in which they act and behave. Secondly, it is the society that will determine the parameters within which business will operate. Also, the society provides the infra-structure and the facilities without which business cannot operate at all; the chief of these is law and order. The society, therefore, has rights against business organisations like all other members. They must not injure the society in any manner; on the contrary, they must contribute to strengthen the society.

It is noteworthy that from its very inception about seventy years ago, the Tata Iron and Steel Company Ltd. included a clause in its Articles of Association requiring the Company to duly discharge its social and moral responsibilities to the consumers, employees, shareholders, society and the local community. In October 1979, the Company appointed a committee, consisting of a retired Judge of a High-Court, an Independent Member of Parliament and a Social Scientist, to carry out an Audit, termed Social Audit, to see whether the Company had discharged the responsibilities satisfactorily. It is not surprising that the committee gave almost a fully clean certificate to the Company (which even without an audit is known to have been keenly aware of its social responsibilities). However, it is only recently that business firms and other interested parties have shown awareness of social responsibilities of business and the need to account for it.

What are the social responsibilities of business? It should be noted at the very beginning that discharge of social responsibilities is not something opposed to earning of

profits. In fact, unless a firm earns profits and acquires financial strength, it will be in no position to do any social good. A firm that is losing money will always be tempted to take the short-cut to profits and may thus injure the society in many ways. Only a strong man and a strong firm can undertake proper service of the society. Therefore, one may say that the very first social responsibility of a firm is to earn profits and be strong. However, the manner in which profit is earned is of vital importance. One can earn money through manipulation of markets, if not by fraud. Nor one can, in the words of Henry Ford, provide the goods and services that the society needs at a price which the society can afford—in other words, render honest service and fill a need that there is and charge a proper price for it. In this manner, business becomes a good social organ, taking the society forward. Profits through manipulations can only impoverish the society.

A question that arises is regarding the place of community development. Some big industrialists have built temples and a few among them have adopted villages and spread health knowledge and education. TISCO built a dam to help irrigation in surrounding areas as well as carried out a malaria eradication programme. Such good-neighbourly actions are undoubtedly helpful and socially advantageous. But, strictly, philanthropy is not a due discharge of social obligations. Basically, social obligations demand that the various interests and values directly affected by business must be upheld and furthered by the manner in which business is conducted. Philanthropy out of monies collected by selling, say, a damaging product is but a bridge, even if not so recognised legally. A firm should be judged both by the manner in which it carries on its operations and the application of its income.

With this general observation, one can state briefly the social obligations of a business as follows :—

(i) **Resources** : It is everyone's duty to use the various resources, specially non-renewable resources like oil, to the best advantage of the society. Wastage of such resources is definitely anti-social.

(ii) **Products** : This has two aspects, First, priority should be given to those products and services which the society really needs—bread and butter must have priority over cakes and ale. Secondly, the product must not cause any harm or injury to the user, unless the consumer is made completely aware of the possible danger. This point was made very forcefully in U.S.A. by Ralph Nader who proved that certain cars made by General Motors were unsafe to drive. In Europe, many years ago, a drug used by expectant mothers resulted in deformation of babies; it had to be withdrawn. It is now recognised everywhere that those who adulterate food are criminals but so are they who market unsafe products.

(iii) **Environment** : Industry usually causes various types of pollution—pollution of the air, the water and the landscape while spoilage of landscape is aesthetically damaging,

air and water pollution is injurious to health, Governments all over the world are now taking steps to restrict pollution to acceptable limits, for example, in the U.S.A. if coal is to be used, it must be first made smokeless. Some States in India also have enacted laws about pollution. The society certainly has the right to see that private profit is not at the cost of social health.

(iv) **Employees** : It is recognised that it is the duty of the employer to be so efficient as to provide the means to his employees for a life worthliving. If the employer denies this to his employees and workers, he condemns them and their children to eternal poverty since opportunities of education and good health will then be denied to them. The employers who can afford to pay good wages but still deny them to the workers are guilty of a social, though not culpable, crime. Apart from wages, employees and workers need something more; they want treatment as adult human beings who have all the emotions and aspirations which man generally has. A thwarting of the aspirations will make people unhappy; not only will this spread unhappiness all over, it will also make the person a poor worker. Unlike customers who can withdraw their patronage if they dislike the product or the service, employees in India at least have no choice—they must continue. Management has a particular duty towards employees to see that they are not denied their legitimate satisfactions at work. It may be mentioned here that provision of housing and other welfare measures for workers is only a partial discharge of social responsibility since the expenditure involved results in better performance.

(v) **Society in General** : A business firm, being an important member of the society, must not do anything to undermine the accepted social values. In the U.S.A., for example, some companies pay particular attention to employment of Negroes and other economically backward people. Some public sector companies in India have started emphasising the number of jobs at various levels held by people belonging to scheduled castes and scheduled tribes. If democracy is accepted, democratic values should be upheld through participative decisions. Justice is an accepted value everywhere. Managements are in the danger of undermining this, in the name of discipline, by upholding in a routine fashion disciplinary orders of superiors. A danger which has been forcefully brought home by Prof. Galbraith is that large business corporations manipulate both the political and economic situations for their own private advantage. This is very dangerous since either it will bring about oligarchic rule or will compel society to acquire control over the culprit firm.

ATTEMPTS AT QUALIFICATION

Admittedly; it is not easy to quantify what the society has gained or suffered from industry and the various business organisations. In the U.S.A., two notable attempts have been made at measuring the contribution of a firm to the society, one is by Abt Associates Inc and the other, known as the Linowes Approach, concerns another corporation. The following two statements show the two approaches :

Abt Associate Inc.

Social Income Statement for the year ending on Dec. 31, 1970 and 1971.

	1971	1970
(1) Social Benefits and Social Costs of Staff :	(in Dollars)	(in Dollars)
(a) Social Benefits to Staff—		
Health Insurance, life Insurance and sick leave	93,492	57,271
Career Advancement	3,45,886	1,73,994
Company School and Tuition reimbursement	6,896	—
Vacation, Holidays, Recreation	2,07,565	1,63,987
Food Service, Child Care, Parking	57,722	51,292
Quality of life (space and its quality)	61,002	70,551
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Total Benefits to Staff	7,72,563	5,17,096
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(b) Social Costs to Staff—		
Lay-offs and involuntary terminations	9,560	7,500
Over-time worked but not paid	6,55,000	4,74,000
Inequality of opportunity	—	—
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Total Costs to Staff	6,63,560	4,81,500
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(c) Net Social Income to Staff	1,09,003	35,596
(2) Social Benefits and Social Costs to Community :		
(a) Social Benefits to Community—		
Local taxes paid	38,952	31,091
Environmental improvements	10,100	8,367
Local tax worth of net jobs created	20,480	15,750
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Total Benefits to Community	69,532	55,208
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(b) Social Costs to Community—		
Local Taxes consumed in service	55,700	34,400
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(c) Net Social Benefit to Community	13,832	20,808
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(3) Social Benefits and Costs to General Public	1971	1970
(a) Social Benefits to General Public—		
	(in Dollars)	(in Dollars)
Federal taxes	1,65,800	—
State taxes paid	59,500	9,830
Contribution to Knowledge (Publications etc.)	10,100	8,300
Federal and State tax worth of net jobs created	69,800	34,800
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Total Benefits to General Public	3,05,200	52,930
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(b) Social Costs to General Public—		
Federal services consumed	83,000	77,000
State services consumed	31,100	23,500
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Total Social Cost to General Public	1,14,100	1,00,500
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(c) Net Social Income (costs) to General Public	1,91,100	(47,570)
Net Social Income (costs) to Staff, Community and General Public	3,13,935	8,834
(4) Social Benefits and Costs to Clients :		
(a) Social Benefits to Clients—		
Added Value to previous contracts to Clients	22,337,500	12,870,000
(b) Social Costs to Clients—		
Contract revenues as opportunity cost	4,572,459	3,254,541
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	17,765,04	9,615,459
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The figures and the approach given above are instructive since they attempt to measure the effect on the staff, community, the general public, as also the clients. It appears that figures regarding clients are not really relevant to social responsibility since that is the direct business of the firm. Also, as regards staff, most of the items are such against which the firm derives or should derive good benefit in the form of regular attendance, better attitude towards work, etc. However, the amount stated as career advancement represents a real benefit to the staff and, therefore, to the society. The exercise as a whole points the way to measuring the discharge of or accounting for the firm's social responsibility.

Linowes Approach : (An illustration) :**Jones Corporation**

Socio-Economic Operating statement for the year ending Dec. 31, 1972

I. Relations with People**(A) Improvements :**

1. Training programme for Handicapped Workers	10,000	
2. Contribution to black college	4,000	
3. Extra turnover costs because of minority hiring programme	5,000	
4. Cost of nursery school for children of employees, voluntarily set up	11,000	

Total for Improvements	30,000	30,000
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(B) Less Detriments :

Postponed for installing new safety devices on Cutting Machines (cost of devices)	14,000	
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(C) Net improvements in people's action for the year		16,000
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II. Relations with Environment**(A) Improvements**

1. Cost of reclaiming and landscaping strip mining	70,000	
2. Cost of installing pollution control devices on Plant A Smokestacks	4,000	
3. Cost of detoxifying waste from finishing process this year.	9,000	

(B) Less detriments :

1. Cost that would have been incurred to re-landscape strip mining	80,000	
2. Estimated cost to have installed purification process to neutralise poisonous liquid being dumped into stream	1,00,000	1,80,000

(C) Net deficit in environment actions for the year		97,000
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III. Relations with Product :**(A) Improvements :**

1. Salary of VP while serving on government product safety commission	25,000	
2. Cost of substituting of leadfree paint for previously used poisonous lead paint	9,000	

Total for Improvements		34,000
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(B) Less Detriments :

Cost of safety device recommended by safety council but not added to product		22,000
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(C) Net Improvements in product actions for the year.		12,000
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Total for socio-economic deficit for the year		69,000
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Add : Net cumulative socio-economic improvements as at January 1, 1972		2,49,000
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Grand Total of net socio-economic actions to December 31, 1972		1,80,000
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The Linowes Approach appears to be more comprehensive than the Abt Approach. The latter mostly confines itself to dealings with workers on a "quid pro quo" basis and taxes paid and consumed, the real social benefit covered by it are career advancement and environmental improvement. The Linowes Approach covers matters which concern the society in general such as programmes for the handicapped, minority hiring, landscaping, pollution control, etc. If a choice is to be made out of the Abt Approach and the Linowes Approach, the latter should be preferred provided adequate quantification is possible.

In Holland social reporting means information on the relations between the organisation and its employees. The pioneer in the field of corporate social reporting in the Netherlands seems to have been the Chemical Company Gist-Brocades. This company, which had a tradition of progressive social policies, published a social report as early as 1959. During 1960, this example was followed by only a few Companies, but, in the 1970s, corporate social reporting gained momentum. In 1977, a monthly magazine put up a prize for the "best social report" of the year. The number of participating Companies rose from 75 in 1977 to 110 in 1979. Social reports are currently published by such diverse organizations as the state-owned post-office, an accounting firm, a university, and corporate divisions. These reports, however, confine themselves to dealing with workers. The topics covered are the following :—

Elements on Social Policy :

I. Composition of Personnel :

1. Total number of Employees.
2. Classification of factory workers and office workers.
3. Classification of Foreigners—Dutchmen.
4. Classification by educational level.
5. Classification by length of tenure/contract
6. Age distribution.
7. Sex distribution.
8. List of executives

II. Other Social Aspect :

(A) Financial

9. Total wages paid
10. Collective Labour Agreement and reward systems.
11. Cost of Training and Education.
12. Types of internal training programmes.
13. Number of internal training programmes.

14. Types of External training programmes.
15. Number of external training programmes.
16. Housing.
17. Costs of commuting facilities.
18. Recreational facilities.
19. Social funds (Expansion funds).

(B) Communication

20. Work Consultation.
21. Contracts with trade unions.
22. Labour representation.
23. Personnel magazine.
24. Annual social or personnel report.

(C) Miscellaneous

25. Medical services.
26. Safety.
27. Number of accidents.
28. Absenteeism due to sickness.
29. Length of sickness leave.

The Two Sides of the Account

Business and Industry have contributed immensely to the economic upliftment of the society. The following are the most significant ways in which this has been done :

(i) First and foremost is the great increase in employment. In the developed countries serious unemployment is a thing of the past; even in countries like India, where unemployment certainly remains serious problem, the situation would have been far worse but for development of Industry. Availability of work is of immense psychological and political value, the contribution of business and industry in this regard should be freely recognised

(ii) Another contribution is in the form of development of skills and entrepreneurial ability. There are numerous establishments which are the result of development of talent of the employees resulting from the work and employment. An industrial house thus gives rise to very many other small units, some of which, in turn, grow big. This surely enriches the society.

(iii) To the extent workers and employees get job satisfaction and are able to build good relations with fellow workers and superiors, work is a source of happiness. One should not imagine that such is a rare or impossible case.

(iv) The greatly improved standards of living of the people, as compared to that in the past, is the result of: first, the development of new products, such as television, man-made fibres, etc. and, secondly, of the increase in incomes which enable people to enjoy the new products. In both of these, business makes a significant contribution. It is business which takes various goods to all corners of the country.

(v) Business and Industry are the instruments of change. It is necessary for a society to adapt itself to the changes that are constantly coming about; Industry helps in the process. India, for instance, was made aware of the importance of computer by the IBM.

An example, summarising all of the above, is that of Sir Jamshedji Tata and his Tata Iron and Steel Company which more than anyone else deserves the credit for creating an atmosphere in the country for development of modern industry. In terms of employment, provision of a vital product and giving an impetus to technological development, TISCO'S record has not been beaten.

The above is the credit side.

THE DEBIT SIDE : While discussing what the social obligations of business are, the debit side has been hinted at. The following points may be briefly noted :

(i) Since the profit motive is the dominant motive, business may ignore products and services that the society really needs and instead, offer these that bring a quick and large profit even if they are injurious.

(ii) The products are often not thoroughly tested for safety before they are marketed and the consumers are often misled through strong advertising and sales promotion campaigns.

(iii) The prices charged are often out of proportion to costs; thus consumers are in fact robbed through combinations and through a process of hypnotisation resulting from strong sales techniques.

(iv) Industry often depletes scarce national resources.

(v) There are too many cases of exploitation of labour; in India even of bonded labour.

(vi) Generally, the treatment that employees and workers receive leaves them frustrated and un-happy. Often, the employees have to give up their conscience, since management insists upon results and does not care about the means. An employee must show results which may compel him to resort to means that are not fair.

(vii) Through dominance of the economic and political science, large business often has a corrupting influence on all concerned.

The above may perhaps be presented in the form of an account as indicated below :

Employee's Account

- | | |
|--|---|
| ★ Shortfall of wage below the living wages. | ★ Excess of wages above the living wage levels. |
| ★ Strains and stressess because of unethical practice. | ★ Development of skills, talent, etc. |
| ★ Injustice that may be there
Balance (Cr) to the Society's Account | ★ Job satisfaction and happiness at work
Balance (Dr.) to the Society's Account. |

Society's Account

- | | |
|--|---|
| ★ Balance (Dr) from the Employees' Account | ★ Balance (Cr) from the Employees' Account. |
| ★ Pollution of air or water in excess of permissible limits. | ★ Development of entrepreneurial ability |

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Society's Account

★ Balance (Dr) from the Employees' Account

★ Balance (Cr) from the Employees' Account.

★ Pollution of air or water in excess of permissible limits.

★ Development of entrepreneurial ability

★Harm caused by unsafe or harmful products

Growth of Employment, Development of new useful products.

★Subsidy afforded by the Society, represented by the excess of cost over prices charged for infra-structural facilities like railways, roads etc.

★Net contribution to national income as represented by value added in excess of remunerations of people working in the organisation, Excess of rates over the cost of social services enjoyed, such as for scavenging, etc, (Expenditure on Community Development).

★Services provided by the society free of cost, education, medical facilities, etc.
Balance-contribution to the society.

★Balance—Society contribution to the business.

Value Added Approach : One may readily concede that, in the present times, it will not be an easy task to prepare the two Accounts suggested above since qualification of many items like happiness at work and job satisfaction, development of entrepreneurial ability, the damage caused by pollution or the value of good landscaping, etc. will not be possible. Yet, it is desirable to measure the social contribution of business even if it does not cover every aspect that there may be, if any social audit is to be attempted.

Two points need emphasis in this respect. The first is that though profit is not at all a dirty word in regard to discharge of social responsibility, the profit should be in terms of contribution to the society and not merely the monetary profit as computed through the ordinary Profit and Loss account. The society is concerned with the type of goods and services produced as also with the use of resources consumed in their production. This means that the output should be valued in terms of shadow prices and not merely the market prices; if shadow prices are used, production of milk should rank much higher than production of drinks, soft or hard. Consumption of resources should also be similarly priced. To get at the real prices to the society will mean a very big effort but, to begin with, perhaps it should suffice if both the out-put and the resources consumed are priced on the basis adopted by the Public Investment Board for social evaluation of public sector projects. The basis is the foreign exchange that can be earned or will be consumed. The efficiency or contribution of a business to the society, through its particular field of activity, can be established by deducting from the value of its output on shadow price basis. In other words, by establishing the value added by the concerned organisation.

The second point is that it is for the society or the Government to decide exactly what the social requirements are. In some cases it has already been done, e. g., minimum

wages have been laid down, employment of women and children in certain trades has been banned. But the society must lay down the limits in all respects, e. g., the extent to which pollution of air or rivers by an industrial concern will be tolerated, the requirement regarding safety of the product, etc. The value added by a firm can then be seen in the light of compliance or otherwise with the social requirements. If a firm infringes any of the requirements, the profit produced by it should be reduced. For example, if a firm employs children and gets an adult's work out of them, the difference between an adult worker's wages and the actual wages will be a charge; if a firm employs bonded labour, the actual cost of having such workers should be deducted from the normal wages cost (minimum wages plus dearness allowance plus contribution to provident fund plus ESI contribution; plus bonus etc.) and the difference will be a charge against the profit earned. Similarly, if an industrial concern takes care to treat its effluent fully and thus cause no pollution, even though some degree of pollution is permitted, the extra cost of treating the effluent should be added to the profit earned. Special facilities for labour, not required under the law, or special extra quality of the product, even though not insisted on by the authorities, should be similarly treated. Admittedly, the quantification of the type of mentioned above will be on the basis of costs incurred or saved. It will certainly not be adequate for example the atmosphere in a company where talent gets encouragement and thus gets developed will probably not be quantified but, for the time being, one should be satisfied with what can be properly quantified.

The value added statement, adjusted as indicated above, appears to be an appropriate statement for bringing out the social contribution of an industrial concern. Output and the resources consumed at socially relevant price will show up to what extent the firm is producing goods and services that are needed by the society and to what extent it is efficient in the use of resources. Employee costs and other expenses will indicate the extent of the surplus left for the shareholders and the society. Dividends paid show up the share of the owners in the surplus and the amount of donations and costs incurred for community development will indicate the good neighbourly attitude of the management. Thus, the value added statement, adjusted, as indicated above, can serve to indicate the efficiency and competence of the firm as also the effect of its relations with employees and the society in general.