COST INFORMATION FOR CORPORATE SOCIAL RESPONSIBILITY PERFORMANCE

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by

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DEDICATION

I would like to dedicate this thesis to my much loved country, Egypt, without whose financial support this work would not have been possible.

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ABSTRACT

The main objective of this study is to develop an accounting and reporting system for the costs of corporate social responsibility performance. Secondary objectives of the study are: (1) to review the current issues of corporate social responsibility to be measured and reported; (2) to provide some guide-lines to help a company's management in selecting the socially relevant activities; (3) to investigate the rationale for corporate social involvement; (4) to indicate the legal minimum requirements in the major areas of corporate social performance; (5) to determine the concept of accounting for corporate social performance and the appropriate method for measuring and reporting the costs of such performance; and (6) to ascertain the current state of corporate social reporting practice in the United Kingdom.

To achieve these objectives, the study begins by discussing the social activities to be covered in corporate social reporting. The rationale for initiating corporate social activities is also discussed and some guide-lines are offered. Moverover, the social actions which should be taken by all British companies, as they are legally required, are examined.

Thereafter, the current development of accounting for corporate social responsibility is reviewed and it is concluded that this sort of accounting is still in its infancy. The reasons for which accountants should be concerned with corporate social responsibility accounting are then presented. The concept of accounting for corporate social performance is discussed and the scope of the concept determined. Several approaches for measuring and reporting

corporate social performance are examined and it is indicated that the cost approach is the proper method to be employed in this study. Then, the cost concepts of accounting for corporate social performance are discussed from both accounting and economic points of view, and a method for measuring the social costs of a company's economic activities is presented.

After reviewing the literature, an attempt is made to develop a framework for accounting and reporting of corporate social performance costs. The identification and classification of such costs are presented and the accounting treatment of these costs is discussed. Separate disclosures of such costs in the traditional financial statements are suggested and illustrated in this study.

Finally, a survey of the current state of corporate social reporting practice in the United Kingdom is given. This survey involved the analysis of corporate social responsibility disclosures in the annual reports and accounts of 207 companies extracted from the top 265 of the 1000 largest U.K. industrial companies. The results of the survey and examples of corporate social responsibility disclosures are presented. The detailed analysis is provided in an Appendix.

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CHAPTER I

INTRODUCTION

Statement of the Problem

In recent years there has been a growing public concern in the United Kingdom about the social responsibility of business. Business has been subjected to a rising volume of pressure to become actively involved in social responsibility activities, such as employee health and safety and fair employment practice; environmental pollution control; energy and natural resources conservation; community activities; and consumer protection and fair trading practice. Such pressure has been brought to bear on business by government, trade unions, the media, and voluntary social pressure groups such as consumer protection groups, environmental protection groups, conservation groups, and other social interest groups.

Symptoms of the increased pressure are numerous. For example, under the title of "Anti-Report CIS", the Counter Information Services has published several reports on the activities of companies such as Unilever, Courtaulds, The General Electric Co. Ltd., and Consolidated Gold Fields Ltd.[1] Moreover, the Social Audit Ltd., has published, in its "Social Audit" magazine, critical examinations of the activities of United Kingdom arms exporting companies, on Tube Investments Ltd., The Alkali Inspectorate, the Lowson Empire, Cable and Wireless Ltd., Coalite and Chemical Products Ltd. and

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[1] See: "ANTI-REPORT CIS", published by Counter Information Services, 9 Poland Street, London, W1V 3DG. Reports available on: Unilever, Courtaulds, The General Electric Co. Ltd., and Consolidated Gold Fields Ltd.

the Avon Rubber Company Ltd.[2] The social pressure on business to be more socially responsible is also being exerted through the media, union activities, environmental and conservation groups' activities, and through such publications as "Which?" and its quarterly satellites, published by the Consumers' Association.

Furthermore, the social pressure on business has culminated in the recent legislation governing the business's behaviour in the major areas of corporate social responsibility. Examples of such legislation include the Equal Pay Act 1970; Sex Discrimination Act 1975; Race Relations Acts 1965, 1968 and 1976; Disabled Persons (Employment) Acts 1944 and 1958; Rehabilitation of Offenders Act 1974; Health and Safety at Work etc. Act 1974; Control of Pollution Act 1974; Fair Trading Act 1973; Consumer Credit Act 1974; Trade Descriptions Acts 1968 and 1972; and Consumer Protection Acts 1961 and 1971.

Currently, there is a widespread acceptance among businessmen in Britain, especially the professional managers in the larger companies, that large companies should assume more responsibility for solving contemporary social problems. Moreover, whether in compliance with the law, or in response to social pressure or to satisfy the corporate conscience, numerous companies are deliberately investing considerable amounts of money in socially responsible activities. This is supported by the findings of several recent surveys conducted in Britain. For instance, a survey carried out by Simon Webley for the Public Raltions Consul-

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[2] See: "Social Audit", published quarterly by the Social Audit Ltd., Munro House, 9 Poland Street, London, W1V 3DG. (Volume 1, Number 1 was published in Summer 1973).

tants Association, in 1974,[3] revealed that 91.7% of the 180 UK chief executives questioned agreed with the statement of the Confederation of British Industry that the company has social responsibilities and moral obligations beyond the pursuit of profit and the specific requirements of legislation.[4]

Similar findings have resulted from earlier surveys by Webley,[5] a survey of opinion in Britian by Management Centre Europe,[6] and from a recent survey by the British Institute of Management.[7] Also the acceptance of corporate social responsibility gets support in such publications as "The Social Responsibilities of Business", by the Social Science Research Council,[8] "The Responsibilities of the British Public Company", by the Company

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3 Simon Webley, "Corporate Social Responsibility", Report on a survey conducted on behalf of the Public Relations Consultants Association, (London: Public Relations Consultants Association, 1975)

4 *Ibid.*, p.4

5 See: Simon Webley, "British Businessmen's Behaviour", (London: Foundation for Business Responsibilities, 1971), and "Management Attitudes and Behaviour in the U.K.", Appendix B in "Towards a Code of Business Ethics", (London: The Christian Association of Business Executives, 1972), pp.23-31

6 F. Harmon and J. Humble, "Social Responsibility and British Companies", (Brussels: Management Centre Europe, 1974)

7 J. Melrose-Woodman and I. Kverndal, "Towards Social Responsibility: Company Codes of Ethics and Practice", Management Survey Report No. 28, (London: British Institute of Management, 1976)

8 Social Science Research Council, "The Social Responsibilities of Business", A Report of an SSRC Advisory Panel, (London: Social Science Research Council, 1976)

Affairs Committee of the Confederation of British Industry,[9] "Guidelines for Directors: Incorporating Standard Boardroom Practice", by the Institute of Directors,[10] and "The Corporate Report", by the Accounting Standards Steering Committee.[11]

Associated with the social responsibility of a business company are the costs of the activities which the company may undertake to discharge its social responsibility. These costs include the expenditure which is made by a company to improve the employee's welfare, safety of the product, environmental conditions and the public welfare. Accounting and reporting for such costs are in an early stage of development in the United Kingdom.

The traditional accounting and reporting system has been primarily concerned with information about the economic performance of a business company. It does not reflect the company's recognition of its social responsibility and the efforts of the company to discharge that responsibility. Certainly the current accounting and reporting system will be improved by the inclusion of cost information concerning corporate social responsibility performance. Such information will enable the users of the corporate reports to evaluate the social responsibility performance of a business company while at the same time helping management in determining

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9 Confederation of British Industry, the Company Affairs Committee, "The Responsibilities of the British Public Company" the Final Report, (London: The Confederation of British Industry, September 1973), especially paras 46-65, pp.17-24

10 Institute of Directors, "Guidelines for Directors: Incorporating Standard Boardoom Practice", (London: The Institute of Directors, July 1978), especially pp.25-27

11 The Accounting Standards Steering Committee, "The Corporate Report" A discussion paper published for comments, (London: The Accounting Standards Steering Committee, July 1975), especially paras. 6.43-6.47, pp.57-58

future priorities for social activities and setting objectives for future social actions.

At this stage little research has been done on the nature and scope of this kind of broadened accounting and reporting system. Thus, the problem of this study is one of developing a cost information and reporting system for corporate social responsibility performance.

Approach for Solving the Problem

Four major areas of research were undertaken in this study. The first area of research was concerned with corporate socially responsible activities to be covered in accounting for corporate social responsibility performance. This area of research was of primary importance, since preparing a list of the socially relevant activities for a business company is the logical starting point for corporate social responsibility accounting. Research in this area involved a comprehensive review of current fields of corporate social responsibility activity and the significant legislation, including governmental regulations, governing the business's behaviour in some of these fields. This review was particularly helpful in identifying the main issues of corporate social responsibility, and in suggesting some guide-lines to help the company's executives select corporate socially relevant activities. It was also helpful in formulating a rationale for initiating corporate socially responsible activities, and in indicating the legal minimum requirements which a business company must strive to meet.

The second area of research was to ascertain the current development of accounting for corporate social responsibility performance as it pertains to cost information. Research in this area included a review of the current literature of corporate social responsibility accounting with the specific purpose of determining the scope of the concept of accounting for corporate social performance and the appropriate approach for measuring and reporting the social performance of a business company. This research also involved a review of the economic literature of social costs. This review was very helpful in developing the cost concept of corporate social responsibility accounting and a practical approach for measuring that concept. It was also helpful in suggesting a legal system for internalising the social costs into the cost accounts of the individual company.

The third area of research was concerned with the development of an accounting and reporting system for the costs of corporate social responsibility performance. This research included an analysis of the costs of corporate social activities, an investigation of their accounting treatment, and suggestions for reporting such costs in the annual corporate report.

The fourth and final area of research was a survey of the current state of corporate social reporting practice in the United Kingdom. Research in this area involved a survey of the most recent annual reports and accounts of 207 companies of the top 265 of the largest United Kingdom industrial companies as indicated by the 1977/78 Times 1000 listing. The survey enquired into the areas of social responsibility in which the leading British companies are actually involved and are disclosing information about their involvement in their annual reports and accounts; the measurement methods of social responsibility disclosure which are being used in each of those areas; and the locations of social responsibility disclosure in the annual reports and accounts. The results of this survey gave substance to all the discussions and suggestions included in the other areas of research described above. They also helped in formulating proposals for future research in the area of corporate social responsibility accounting.

Objectives of the Study

The primary objective of this study is to identify and measure the costs of corporate social responsibility performance, and to develop a valid and practicable framework for reporting such costs.

Secondary objectives of this study are:

1. to review the current issues of corporate social responsibility to be covered in corporate social reporting;
2. to develop some guide-lines to help the company's management in selecting the socially relevant activities which the company may undertake, and in setting up their priorities;
3. to formulate a social and economic rationale for corporate involvement in social activities;
4. to indicate the legal minimum requirements which a business company must meet in some of the main areas of corporate social responsibility;
5. to review the current literature to ascertain the current development of accounting and reporting for the costs of corporate social responsibility performance;

6. to survey the current reporting practice to find out the extent to which British companies are actually involved in measuring and reporting information on their social performance;
7. to provide the users of the annual corporate report with additional information and analysis to help them in assessing the social performance of a business company; and
8. to stimulate further research into the area of corporate social responsibility accounting where there has been limited research conducted.

Scope and Limitations of the Study

The scope of this study is limited to the identification, classification and measurement of the costs of corporate social responsibility performance as well as to the development of a reporting system for such costs. No attempt was made to measure and report the social benefits of corporate social activities.

Moreover, the cost concept used in this study is further limited to the costs incurred by a business company in the areas of corporate social performance to either decrease social costs or increase social benefits. No attempt was made to identify, measure or report the social costs inflicted on, and borne by, society generally or one of its elements.

Although the management of a company equally needs cost information on corporate social performance for planning and decision-making purposes, the emphasis of this study is on the reporting of this information to external users of the annual corporate reports, such as investors, consumers, governmental authorities, social pressure groups, trade unions and the general public. Thus, the reporting of social information for internal managerial decision-making is beyond the scope of this study.

Furthermore, the term "social audit" is sometimes used in the literature to mean the measurement of and reporting on the social performance of a business company. In this study, however, the term "social audit" will be limited to its traditional meaning of an independent outside examination and verification of the information generated internally by a business company concerning its social performance. Thus, such social audit is beyond the scope of this study.

It is believed that the framework of accounting and reporting for the costs of corporate social activities, developed in this study, is valid and practicable, as it is based on information which is already available, or can easily be made available, within the company and on using the conventional accounting and reporting system which is currently being used by all business companies. However, no empirical tests were conducted to determine if the suggested accounting and reporting system could be used for all industries and for individual companies. Although such tests are very much required, they are outside the scope of this study.

Finally, the survey of the current reporting practice in the United Kingdom regarding corporate social responsibility performance, conducted in this study, is limited to only company annual reports and accounts as the main source of information on corporate activities. Other media through which the British companies may report on their social performance were not surveyed.

The survey is further limited to only one year's annual reports and accounts of the largest United Kingdom industrial companies. Thus, the survey does not reveal the consistency of corporate social reporting over several years. Moreover, although the smaller and non-industrial companies may be actively involved in reporting on their social responsibility performance, the annual reports and accounts of such companies were not included in the survey.

Plan of Presentation

This study is divided into eight chapters. These are as follows:

Chapter I, Introduction, introduces a statement of the problem, an approach for solving the problem, objectives of the study, scope and limitations of the study, and the plan of presentation.

Chapter II, Areas of Corporate Social Responsibility Performance, begins with a discussion of the nature of corporate socially responsible activities and whether this nature may affect corporate social reporting. Then, the chapter presents the classification and identification of corporate socially responsible activities to be covered in corporate social responsibility performance accounting. The determining factors which limit the scope of the company's involvement in areas of corporate social responsibility performance are discussed in this chapter, and some guide-lines to help the company's management in choosing socially relevant activities are offered. This chapter also discusses the rationale for initiating corporate socially responsible activities.

Chapter III, Corporate Social Responsibility and the Law, examines the legal requirements governing the company's behaviour in some of the main areas of corporate social responsibility performance in order to show the influence of legislation, including governmental regulations, on the assumption of social responsibility by business companies. The chapter discusses the major social activities which are required by law and governmental regulations in the areas of employment practices, environmental pollution control and consumer affairs.

Chapter IV, Accounting for Corporate Social Responsibility Performance: A Review of the Current Literature, reviews the current state of the literature of accounting for corporate social responsibility performance. The chapter discusses the need for accountants to become actively involved in measuring and reporting information on corporate social responsibility performance. It further discusses the concept of accounting for corporate social responsibility performance. Several definitions of corporate social responsibility performance accounting are presented in order to indicate the scope of the concept and the title which should be used to describe the social information. This chapter also presents the different approaches which have appeared in the literature for measuring and reporting corporate social responsibility performance in order to determine the appropriate approach to be adopted in this study.

Chapter V, Cost Concepts of Corporate Social Responsibility Accounting, examines the concept of social costs to be applied in accounting for corporate social responsibility performance. It reviews the economic theory of social costs. The nature and problems of social costs, as well as the theoretical solutions to these problems, are discussed from the point of view of the economic theory. The problem of measuring social costs is also discussed in this chapter, and a practical approach for solving this problem is suggested and justified from the point of view of the accounting theory. Also suggested in this chapter is a legal system of prohibition, taxation, tax incentive and subsidies which is necessary to create the economic incentive needed for business companies to undertake socially responsible activities.

Chapter VI, Accounting and Reporting for Costs of Corporate Social Responsibility Performance, presents the accounting and reporting system for costs of corporate social responsibility performance. The chapter begins by classifying and identifying the costs of corporate social activities to be measured and reported. Then, the accounting treatment of such costs is discussed in accordance with generally accepted accounting principles. This chapter also discusses the reporting of costs of corporate social activities within the traditional financial statements. Separate disclosures of these costs in the income statement, balance sheet, and statement of source and application of funds are suggested. Also suggested in this chapter is a supplementary report, to be included in the annual corporate report as an adjunct to the traditional financial statements, containing statistical data and additional information on corporate social responsibility performance.

Chapter VII, Accounting for Corporate Social Responsibility: A Survey of the Current Reporting Practice, surveys the current state of corporate social reporting practice in the United Kingdom in relation to corporate social performance. The chapter presents the approach and results of a survey of the most recent annual reports and accounts of 207 companies of the top 265 of the largest United Kingdom industrial companies, as ranked by turnover in the 1977/78 Times 1000. Extracts from the annual reports illustrating the methods used by British companies for measuring and reporting their social responsibility performance are also included in this chapter.

Chapter VIII, Summary, Conclusions and Recommendations for Further Research, contains a summary of the study, conclusions and suggestions for further research in this area of accounting.

CHAPTER II

AREAS OF CORPORATE SOCIAL RESPONSIBILITY PERFORMANCE

One of the fundamental deficiencies of the emerging discussion on social responsibility of business organisations is the lack of agreement on the fields of social activity in which business firms should engage themselves to improve the social well-being of the community. There are no defined boundaries for the concept of social responsibility of business. There is no commonly accepted understanding of what are the socially relevant activities on which business firms should focus to increase their overall benefit to society. There is not even agreement on how to provide either society or the business community with general guide-lines for choosing the social concerns to which the company should respond.

In the light of this lack of agreement, how can a company identify areas of social relevance which should be covered in corporate social reporting? The answer to this question, though not easy, is of great importance since preparing a list of socially relevant activities for the company is the logical starting point for corporate social performance accounting. Once the list of socially relevant activities is completed, it becomes the task of the social accountant to measure and report the social costs associated with those activities. But selecting the socially relevant activities to be measured and reported is a difficult task. Thus, this chapter is intended to settle that issue.

The chapter will be divided into five main sections. In Section 1, the nature of corporate socially responsible activities will be discussed. The classification of corporate socially responsible activities will be presented in Section II. Section III will discuss the identification of corporate socially responsible activities to be covered in accounting for corporate social responsibility performance. The determining factors to be considered in choosing corporate socially relevant activities will be examined in Section IV. Also, some guide-lines to help the company's executives in choosing the socially relevant activities which the company may undertake, and in setting up their priorities, will be offered in this section. Section V will present the different rationales for initiating corporate socially responsible activities.

I. The Nature of Corporate Socially Responsible Activities

For each company the list of socially responsible activities could be quite different, due to variations in the surrounding social environment within which the company operates; local authorities' regulations and local community pressures; the existence of the necessary expertise to cope with the social problem; the company's market and financial position; and inevitably the nature of industry in which the company is engaged.

<u>Moving Targets</u>:

Socially relevant activities may change from year to year as different aspects of social concern are emphasised. Socially responsible activities of the past may not be relevant today, just as today's social activities may not be of future interest. As certain social problems are controlled, they will diminish in importance while other issues gain emphasis. This is the alleged "moving target"[1] nature of socially relevant activities.

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[1] See: Neil C. Churchill, "Toward a Theory for Social Accounting", <u>Sloan Management Review</u>, Spring 1974, pp.1-17. Also see: Robert H. Anderson, "Social Responsibility Accounting: Evaluating Its Objectives, Concepts and Principles", <u>CA Magazine</u>, October 1977, pp.32-35

The movement of corporate actions from being socially responsible to becoming a normal, expected and frequently required part of doing business occurs through the law and through changes in the social climate and society's expectations. The company's socially effective actions and performance require, therefore, continual adaptation to changing social needs and opportunities for response.

It has been argued that this "moving target nature" of socially relevant activities makes it difficult to apply the traditional accounting principles of "continuity" and "consistency" in accounting for corporate social responsibility performance in order to provide year-to-year comparisons of corporate social reports.[2] It has also been argued that as socially relevant activities become legally required or accepted industry practice, they may be gradually eliminated from corporate social reports because they would have become a necessary part of doing business and would have blended into the economic mainstream of the company. Society will expect the company to be engaged in these activities and will not expect these activities to be included in reporting on corporate social responsibility performance. The suggestion here is that[3] accounting for corporate social responsibility performance should concentrate on those activities of the company which are "incremental" or "experimental" if the social reporting is going to determine the company's response to a changing social environment.

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[2] Neil C. Churchill, op. cit., pp.10-11

[3] Steven C. Dilley, "What is Social Responsibility: Some Definitions for Doing The Corporate Social Audit", CA Magazine November 1974, pp.24-28

The researcher does not find this argument valid because it has been based on a fallacious assumption that socially responsible activities are only those voluntary activities or activities over and beyond the legal minimum requirements. The problem with this argument is that it considers the nature of activities changes from being 'social' to being 'economic' as these activities become subject to the law and governmental regulations. With such an assumption, and with the rapidly changing legal environment there will not be continuity and consistency in accounting for corporate social responsibility performance. However, the researcher believes that legislation and enforcement have played and will continue to play important roles for the expansion of the corporate social responsibility issue.

It is the researcher's contention that legal institutions can provide the framework of controls necessary for making companies more socially responsible, while at the same time providing a strengthened base for corporate legitimacy. This is the starting point for consideration of the obligations of a company to society at large. The Company Affairs Committee of the Confederation of British Industry, though it has correctly stated that the law sets minimum standards of corporate social conduct, seems to favour this starting point when it says:

> "The company, being an artificial creation of law, owing its existence to the will of the community, it is the duty of Parliament to ensure, so far as possible, that the operations of companies do not conflict with the public interest as that may manifest itself from time to time." [4]

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[4] Confederation of British Industry, the Company Affairs Committee, "The Responsibilities of the British Public Companies", Final Report (London: Confederation of British Industry, September 1973), para. 60, p.23

This viewpoint appears to be acceptable to almost everyone who writes on the subject. Even Milton Friedman, a Nobel prize winner economist and the most vocal opponent of business assumption of social responsibilities, seems to be agreeable with social responsibilities of business if they are required by law or ethical custom. He states:

> "In a free enterprise, private property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom.[5]

Friedman seems to promote a way for the company to meet its obligation to its shareholders and to the public, for the law and ethical custom represent a public policy. Friedman tacitly agrees that the law can provide a basis for setting up a type of corporate compliance which will satisfy the maximum profit objective for the company's owners (shareholders) and the social requirements for other parties of the company and for the general public.

Moreover, the researcher believes that the nature of activities does not change at all whether those activities have been undertaken voluntarily by the company or imposed on it by society through the law and governmental regulations. There is an unnecessary confusion here between the nature of the two concepts: social activities and economic activities. Therefore, the researcher offers the following definition of corporate socially responsible activities, in contrast with corporate economic activities, to clarify this important point.

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[5] Milton Friedman, "Does Business Have a Social Responsibility?" Bank Administration, April 1971, pp.13-14

Corporate economic activities are those basic activities which a company is primarily established to do for the purpose of making profit for the company or its owners (shareholders). In contrast, corporate socially responsible activities are those activities undertaken by the company, without expecting direct economic benefit, in compliance with the law and governmental regulations, over and above the requirements of the law, or undertaken voluntarily in response either to public pressure or to the plain sensitivity of management to social issues, for the purpose of improving the welfare of its employees, or public safety of the products, or conditions of the surrounding environment, or enhancing the social well-being of society at large.

From this definition, it is important to note that socially responsible activities are not only those actions undertaken voluntarily by the company or beyond the minimum legal requirements, but also those actions undertaken in compliance with the requirements of the law. It should also be noted that most socially relevant activities could be economically disadvantageous for the company concerned, but legally required. For example, pollution control costs are the most highly publicised of the socially responsible activities undertaken by business firms in recent years. Another example would be increased expenditure for health and safety at work after passage of the Health and Safet at Work, etc. Act of 1974. These activities are, nevertheless, social contributions to improve the social well-being of people inside and outside the company, and of society generally in spite of the fact that contributions are largely involuntary as far as the company is concerned. Certainly, socially responsible activities include such critically relevant actions as the enforcement of equal employment opportunity regulations, retirement benefits for employees, consumer safety standards and truth in labelling and advertising. Since it is results that count, voluntariness does not matter. What really matters is that if the company has, voluntarily or compulsorily, engaged in these activities, a social benefit (not direct economic to the company or its owners) would be expected to have resulted, and if the company has not engaged in these activities, society or one of its elements may be worse off as a result. Consequently, when the law has intended favourable social results, it can be called socially responsible behaviour.

Furthermore, the researcher does not agree that the principles of continuity and consistency in accounting practice to provide year-to-year comparability cannot be applied in accounting for corporate social performance. As mentioned above, the nature of a company's activities does not change from being 'social' to being 'economic' just because these activities are becoming a normal, expected and frequent industrial practice as they are required by law, social pressure, or governmental regulations. On the contrary, the researcher thinks that it is to maintain the principles of continuity and consistency in accounting for corporate social performance, at this early stage of its development, that socially relevant activities should be required by society through legislation, governmental regulations, or social pressure. This is important not only to provide comparative data in a particular company over several years (intra-company comparisons) by using consistent accounting, but also to allow comparisons between the company and other companies in the same line of industry (inter-company comparisons) by forcing all companies to bring about plans and to take actions for social improvement while ensuring that they all will be treated equally.

Also of significance to a company's activities is the attitude of its competitors to the social problem. Individual companies cannot with safety continue to increase their costs voluntarily, and they may well resist pressures brought to bear on them but not on their competitors because of competitive cost disadvantages in the market. It also seems quite unlikely that the actions of a few powerless and scattered social pressure groups towards social objectives will ever produce widespread corporate social policies at an acceptable social cost. Only strict legislation, including governmental regulations and enforcement, seems to be the effective way to make companies more socially responsible and to overcome the problems of intra-company and inter-company comparisons. Moreover, legal standards are needed for problems requiring large sums of money such as the abatement of air and water pollution. An industrialist probably does not mind how high his costs are, providing his competitors have the same costs. This statement from an executive of a major U.S. oil and chemical company may be typical:

> "Most of us have the money to spend on cleaning up pollution, but we are not going to spend it until all of us are forced to do the same." [6]

However, mere compliance with the law is a low level of corporate social responsibility. The questions is one of degree. The obviously more responsible company is the one which shows progress towards meeting desirable social goals not yet legally

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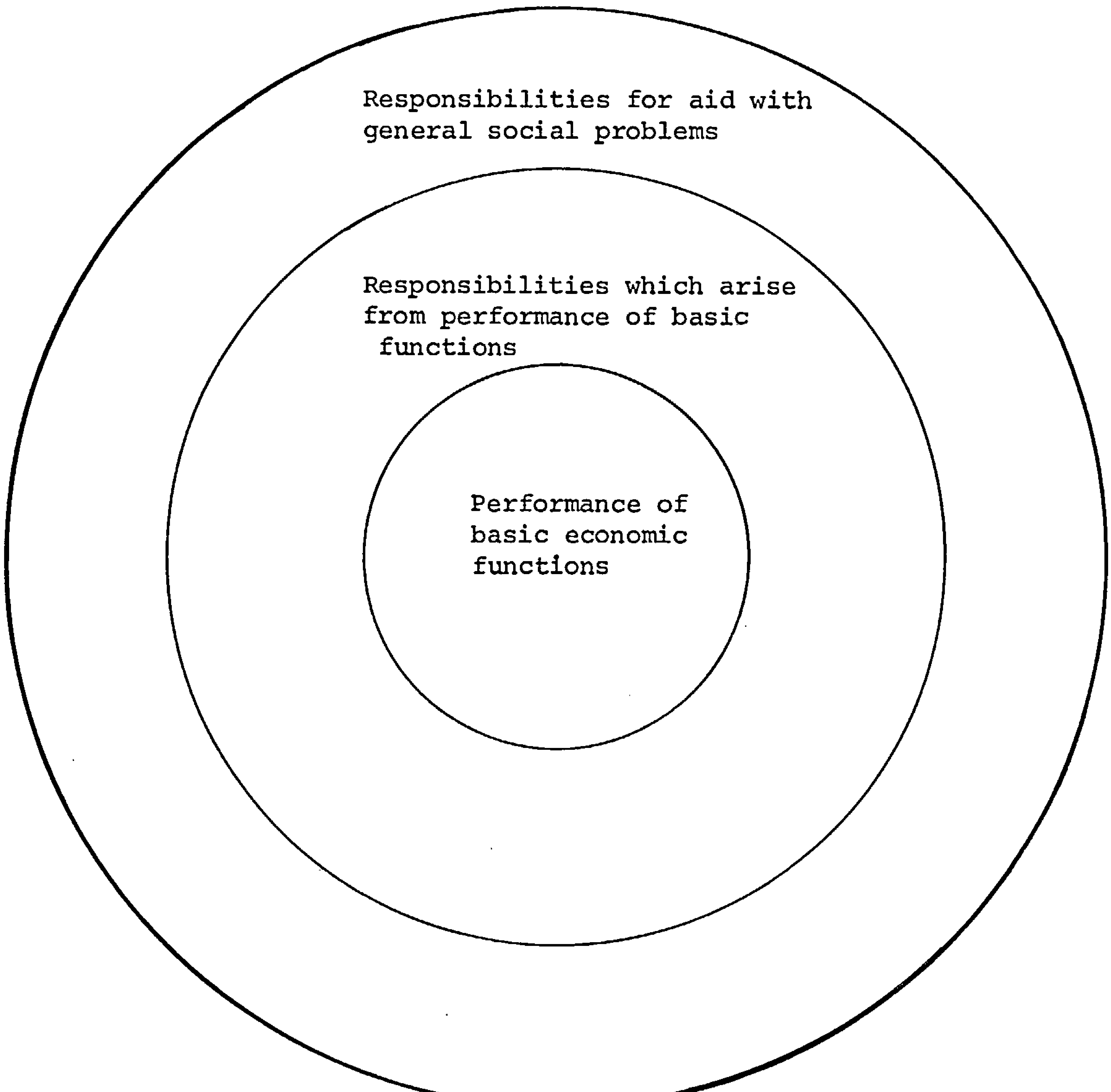
[8] Joel Siegal and Patrick O'Driscoll, "Accounting: Its Social Implications", The National Public Accountant, Vol.20, March 1975, pp.15-19, p.16

required. Therefore, compliance with the law by the socially responsible company may be in terms not only of applying the requirements of the law, but also of an extrapolation of its spirit or intent to cover behaviour which could not easily or effectively be prescribed by statute. In addition, the most socially responsible company is the one which should be aware of any new emerging social demands and societal expectations as additional opportunities for responses. This means that the company can add to the minimum social actions required by law any new items of social interest from year to year to corporate social reports, while at the same time providing enough data for comparisons and explaining any changes in social reporting as long as they are of interest. This is consistent, however, with the accounting practice tradition of providing year-to-year comparisons and of describing any change in the composition of any two-year period. Accordingly, the researcher does not agree with the argument that corporate social reporting should only focus on incremental or experimental activities of the company and that socially relevant activities which become legally required should be gradually dropped from corporate social reports. The researcher believes that socially relevant activities required by law should not be eliminated from corporate social reports if the principles of continuity and consistency in accounting practice are to be observed in any system of accounting for corporate social responsibility performance.

II. Classification of Corporate Socially Responsible Activities

Responsibilities of a business firm have been classified generally by Professors Keith Davis and Robert Blomstrom into three distinct, though interrelated, levels.[7] These levels have been illustrated by the following figure.[8]



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[7] Keith Davis and Robert L. Blomstrom, "Business and Society: Environment and Responsibility", Third Edition, (New York: McGraw-Hill Book Company, 1975), pp.7-8

[8] Ibid., p.8

The inner circle represents the traditional responsibility of business for its basic economic functions. This traditional responsibility is primarily an economic activity.

The intermediate circle represents the widening area of responsibility which arises directly from performance of the basic economic activities. These responsibilities have rapidly become important and are represented by such issues as equal employment opportunity, health, safety and welfare of employees at the place of work, safety of the product, and abatement of pollution caused to the environment by business operations.

The outer circle represents an area which is still not well defined, but there is a rising public demand on business to modify its singular pursuit of economic goals and help society with some of its unsolved general social problems. Economic activities of business may not directly cause these problems and business therefore will not have primary responsibility for solving these problems, but it should provide significant aid, since business is a major institution controlling major social resources. Examples are training and employing of women, minorities and disadvantaged persons, supprting higher education, and conserving the natural resources.

A somewhat similar classification of business responsibilities has been adopted by John Hargreaves and Jan Dauman.[9] They have

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[9] John Hargreaves and Jan Dauman, "Business Survival and Social Change: A Practical Guide to Responsibility and Partnership", (London: Associated Business Programmes, 1975), pp.15-21. Also see:

John Hargreaves, "The Company and Its Responsibilities: Policy for Responsibility", (London: Foundation for Business Responsibilities, Second Paper in the 1975 Programme, 1975)

George P. Hinckley and James E. Post, "The Performance Context of Corporate Responsibility" in, S. Parkash Sethi, (Ed.), "The Unstable Ground: Corporate Social Policy in a Dynamic Society", (Los Angeles: Melville Publishing Company, 1974), pp.293-302 diagramatically represented responsibilities of a business firm by three concentric circles.[10] The inner circle corresponds to the "basic responsibilities" of any company generated by the very fact of that company's existence. Indeed, it could be argued that activity at this first level of corporate responsibilities should not be looked on as 'social responsibility' at all. The intermediate circle relates to the "organisational responsibilities" of the company to meet the changing needs of all its shareholders. It is at this level that "bulk of thinking on social responsibility is concentrated today".[11] Finally, the third and outer circle relates to the "societal responsibilities" of the company and represents those investments in, and contributions to, the wider community designed to help create the healthy overall environment the company requires in order to survive and operate effectively. Meeting these societal responsibilities by the company results in a contribution to the solution of key social problems which, if left unsolved, would reduce the chances of its successful survival.

It should be noted, from this classification, that a useful general distinction is possible between the economic, that is the direct profit-related, performances of a business firm and the essentially non-economic or social performances. The former relate to the company's basic economic mission, the latter relate to all of the company's activities which are not directly related to the economic purpose and mission. This distinction is a useful basis on which classification of corporate socially responsible activities

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[10] John Hargreaves and Jan Dauman, op. cit., p.16

[11] Ibid., p.17

can proceed, but, certainly, it is not the only one. Areas of corporate socially responsible activities can be further classified from many different points of view: activities which are internal in, or external to a company; voluntary activities and activities which are legally required; the impact of corporate social activities on profits; and specific corporate social programmes.

Internal versus external:

In examining areas of corporate social responsibilities which every company faces, it is apparent that there are internal and external areas of a company's social involvement. The internal activities are the older and better organised needs. These internal social responsibilities of the company are towards its employees and working conditions. Other rather common responsibilities of a company are job training programmes which relate to all types of employees, non-discriminatory practices in employment and advancement, good fringe benefits which suit the needs of all employees, health and safety of all employees, and good internal work environment and employee relations.

The external socially responsible activities are the result of the changing social environment and public needs. Examples of the leading social issues at present include: prevention of air pollution, water pollution, land (or solid waste) pollution, and noise pollution; product safety; fair trading; community involvement; supporting education; the creation of public facilities; and natural resources and energy conservation.

This sort of classification is significant because it can show which areas of social concern are focussed on by business companies in any two different countries. In the United States for instance, the external areas of social responsibility, such as environmental pollution control and energy conservation, are considered by American companies more important than any other social responsibility topics.[12] In the United Kingdom, the internal areas of corporate social responsibility are perceived by British companies as most important.[13]

However, if the external social responsibilities of business are considered here as the result of only domestic social environment and public conditions, which is apparently the case,[14] a third area of corporate social responsibility activities can be added to the internal and external areas. This third area is the area of international

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[12] See: Ernst and Ernst, "Social Responsibility Disclosure", 1978 Survey (Cleveland, Ohio: Ernst and Ernst, 1978), especially pp.22-28

[13] See the results of a survey of the current state of corporate social reporting practice in the United Kingdom conducted by the researcher and presented in Chapter VII of this thesis. Also see:

- Simon Webley, "Corporate Social Responsibility" Report on a Survey conducted on behalf of the Public Relations Consultants Association, (London: Public Relations Consultants Association, 1975), especially pp.5-7

- J. Melrose-Woodman and I. Kverndal, "Towards Social Responsibility: Company Codes of Ethics and Practice", Management Survey Report No. 28, (London: British Institute of Management, 1976), especially p.25

- Eleanor S. Morgan, "Social Responsibility and Private Enterprise in the United Kingdom", National Westminster Bank Quarterly Review, May 1977, pp.55-67

[14] See: John W. Humble, "The Social Responsibility of Business", in Harry Miller, (Ed.), "Management and Working Environment", (London: Hutchinson Benham Ltd., 1975), pp.60-73. Also see:

- Philip C. Cheng, "Time for Social Accounting", Certified Accountant, October 1976, pp.285-291 social impact of corporate activities. As the world becomes more congested, business faces the responsibilities of aiding in the development of foreign social systems. The multi-national enterprise has a significant and perhaps leading role in achieving social improvements in the foreign countries, particularly in the developing countries, in which it operates.[15] For example, fair employment practices overseas, especially in South Africa and Rhodesia as well as in any part of the Third World, are of social relevance for the British international companies. Helping war and natural disaster victims is another facet of the international socially responsible company. War and natural disasters, such as earthquakes, volcanic eruptions and floods, require quick action to minimise the spread of epidemics, to provide adequate food and shelter for survivors, and to hasten the return of normality.

Voluntary versus compulsory:

Socially responsible activities can also be classified into those purely voluntary activities where the company takes the initiative and exercises leadership or acts to avoid pressures put on it by social pressure groups, and those social activities compul-

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[15] For additional discussion of this type of analysis, see:

- International Labour Organisation, "Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy", (London: Department of Employment, 1979)
- Sanford Rose, "Multinational Corporations in a Tough New World", Fortune, August 1973, pp.52-56, 134
- Donald A. Fink, "The Role of the Multinational Corporation in the Economic Development Process", MSU Business Topics, Autumn 1972, pp. 58-62
- Charles W. Powers, "People and Profits: The Ethics of Investment", (New York: Council on Religion and International Affairs, 1972), pp.107-202
- Emile Benoit, "The Attack on the Multinationals", Columbia Journal of World Business, November-December 1972, pp.15-22
- Daniel Parker, "To Improve the Conditions of Life for Everyone Everywhere", Columbia Journal of World Business, July-August, 1968 pp.19-26

sorily undertaken by the company to comply with the law and governmental regulations. Corporate philanthropic activities are the best examples of voluntary social activities and the best known historically.

Examples of social activities which are required by law and governmental regulations include providing equal employment opportunity for women and minority groups; the employment of disabled persons, and former prisoners; ensuring health and safety of all employees at work; abating environmental pollution; adopting fair trading practices; and ensuring product safety. Chapter III will closely examine the laws and regulations controlling the business's behaviour in these areas of corporate social responsibility.

This kind of classification is useful because it serves to evaluate the degree of a company's social responsibility generally. A company which only tries to keep within the letter of the law and governmental regulations, is certainly less socially responsible than the one which goes further beyond what is legally required. Obviously, the more socially responsible company is the one which voluntarily takes action to meet those societal demands and public expectations which are not yet legally required, as well as those societal actions required by law or governmental regulations.

The impact on profits:

Corporate socially responsible activities might be classified from the standpoint of their impact on profits into three groups. The first group of social activities are those which serve to improve both short-term and long-term profits. As an example, while the use of returnable containers (instead of 'No deposit - No return' containers), by soft-drink manufacturers, prevents land (or solid waste) pollution, this also reduces consumer cost and might therefore increase the total sales volume. The recycling of waste materials could also be considered as another example. It has become more pronounced as it has become increasingly evident that supplies of primary raw materials are not unlimited, and that they are becoming steadily more expensive. Moreover, space for dumping is becoming steadily scarcer. Thus, economic considerations have made waste reclamation economically viable and have provided an incentive for the process. In some industries recycling of waste materials has been a common practice, notably in certain sectors of the textile industry which have traditionally made use of waste woollen goods as raw materials.[16]

Also, improving the work environment, adopting non-discriminatory practices in hiring, promoting and firing, securing safety and health of all employees, providing good pay and benefits for employees, and maintaining good employee relations will all result in higher morale and productivity. In turn, absenteeism, disputes, personnel turnover and production losses will be reduced resulting in further increases in productivity.

The second group of corporate social activities are those activities which clearly reduce short-term profits, but can be justified on the grounds that they will increase corporate long-term profitability. Most of the corporate socially responsible activities lie in this group. Corporate contributions for educational

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[16] See: "The United Kingdom Waste Reclamation Industry", A National Westminster Bank Study, <u>National Westminster Bank Quarterly Review</u>, August 1977, pp.60-68

purposes, the involvement of companies in local community activities, and conservation of energy and natural resources by companies will all contribute to long-range profitability in terms of gaining a good image and good public relations.

The third group of corporate socially responsible activities are those activities which certainly reduce short-term profits of the company, and cannot be justified on the basis of contributing to profitability of the company in the long run.[17] This kind of social activity, however, can be justified on the grounds of ethics or moral obligation, or the changing social contract with business. The best example of this kind of corporate social activity would be cleaning up the environmental pollution of a company's past activities and preventing the current and future environmental degradation. Another example of this group of social activities might be the company's gifts to charitable organisations, especially those which are geographically remote from the company's operations.

It will always be easy, for businessmen, to take actions of the first kind since those social actions will be likely to improve both short-term and certainly long-term profits. Businessmen seem also to be willing to take actions of the second kind in the hope of increasing the company's long-range profitability, even though those social actions might reduce short-term profits of the company. But, some businessmen will be always reluctant to take any social action which reduces both short-term and long-term profits. This latter group of social actions, however should be required by law or governmental regulations.

[17] See: George A. Steiner, "Business and Society", Second Edition, (New York: Random House, Inc., 1975), pp.158-159

This type of classification shows that while some corporate social responsibility activities might be interpreted as being in the company's self-interest or long-range profitability, others might not. Therefore, the rationale for initiating socially responsible activities cannot be based only on the company's self-interest in the long run. This point will be closely discussed in a later section of this chapter.

Specific corporate social programmes:

The basic question which needs to be answered remains. What specific areas of corporate social responsibility are perceived by business organisations as most important? In fact, the answer to this question is very difficult. An American Management Associations' Survey Report, entitled "Business and Society: 1976-2000", published in 1976,[18] concluded that the major difficulty which corporate executives perceive in meeting 'social responsibility objectives' was identifying social problems they should attack.[19] The Report has arrived at this conclusion as a result of the findings of a very large survey of American business executives on the subject of corporate social responsibility, conducted by the American Management Associations in 1975. The survey population comprised 4,820 corporate presidents of large and small companies in a wide variety of manufacturing and service industries, from which 644 usable replies were generated and findings were drawn.[20]

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[18] John L. Paluszek, "Business and Society: 1976-2000", An American Management Associations' Survey Report, (New York: AMACOM, A Division of American Management Associations, 1976).

[19] Ibid., p.3

[20] Ibid., p.31

At any one time the expectations of society which can be communicated to the company are most likely to exceed the company's ability to respond to them.[21] It would seem logical, therefore, that every company should identify a priority list of society's expectations and public demands at the moment, since scarcity of resources makes the achievement of all desirable social goals quite impractical. This means, however, that every company should first prepare a list of public needs and societal expectations, then reduces this list to those activities which the company's executives think are focussed on, and should be pursued by, the company.

But, the main problem remains unsolved. How can the company identify public needs and society's expectations? And what criteria can the company's executives use to choose those specific activities which they consider the company should undertake to meet the most important needs and expectations of society? In the next section, the researcher attempts to answer the first question. To answer the second question, the researcher will offer in a later section of this chapter, some guide-lines to help the company's executives, in

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21 See: Neil W. Chamberlain, "The Limits of Corporate Responsibility" (New York: Basic Books, 1973), especially pp.10, 205. Also see:

- Allen D. Shocker and S. Parkash Sethi, "An Approach to Incorporating Societal Preferences in Developing Corporate Action Strategies", California Management Review, Summer 1973, pp.97-105

John F. Steiner, "The Business Response to Public Distrust", Business Horizons, April 1977, pp.74-81

Dow Votaw and S. Parkash Sethi, "Do We Need a New Corporate Response to a Changing Social Enviornment?" Two Parts, California Management Review, Fall 1969, pp.3-31

- Neil H. Jacoby, "Corporate Power and Social Responsibility: A Blueprint for the Future", (New York: Macmillan Publishing Co., Inc., 1973), especially pp. 185-203 selecting the socially relevant activities which the company might undertake, and in setting up their priorities.

III. Identification of Corporate Socially Responsible Activities

In answering the first question above, there are several ways in which society conveys its demands and expectations. Society communicates its expectations most clearly when they are eventually enacted into law. By means of the law, society converts a growing public need and the example of some socially responsible companies into an obligation for all companies. (Examples of such actions required by law will be discussed in the next chapter.)

Society also communicates its expectations from, and demands on, business through public interest and social pressure groups. In addition to trade unions, these pressure groups include voluntary groups such as Consumers' Association, the Student Christian Movement, the Social Audit group, and groups of environmentalists such as the National Smoke Abatement Society and Conservation Society in Britain, and Friends of the Earth in Both Britain and the United States. Strikes, boycotts, sit-ins and demonstrations have been used by these groups to convey some societal expectations and public needs to corporate executives. Moreover, some of these social pressure groups publish regular magazines such as "Social Audit" magazine which is published quarterly by Social Audit Limited,[22] and the magazine "Which?" which is published monthly, and its quarterly Satellites,[23] by the Consumers' Association.

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[22] See: the "Social Audit" magazine, published quarterly by Social Audit Limited, London, Vol. 1, No.1, Summer 1973, and after.

[23] The magazine "Which?" was founded in 1957, and the satellite publications include "Motoring Which?" "Money Which?", "Holiday Which?" and "Handyman Which?"

Moreover, the analysis of mass media provides more valid information on current trends of society in regard to the basic values determining the relationship between business and society. This is done by social reformers through their national crusades and by some businessmen with social conscience who, by taking advanced steps, communicate the societal demands by example. Therefore, mass media could also be considered to be not only a source of information on society's needs and expectations, but also a source of public pressure because they influence and stimulate these current trends of society both by reinforcing those groups and individuals who initiate the demands and by confronting a wider portion of the population with those ideas.[24]

However, information on public needs and societal expectations conveyed to the company's executives through mass media is, sometimes, distorted by the opposing viewpoints of others in society. Thus, the company's executives are left with theproblem of judging what societal expectations have gained general acceptance among employees, consumers, shareholders, competitors, and the general public so strongly as to require that the company should take actions. To ensure impartial judgement, the company can conduct opinion surveys of the employees, shareholders, consumers, the neighbouring community residents and the general public. The results of these opinion surveys should provide the company's executives with a better understanding of the most important demands and expectations of society which should be met by the company.

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[24] For a more detailed discussion on this point, see: Meinolf Dierkes, Rob Coppock, Halina Snowball and James Thomas, "Social Pressure and Business Actions", in : Meinolf Dierkes and Raymond A. Bauer, (Eds.), "Corporate Social Accounting", (New York:; Praeger Publishers, Inc., 1973), pp.57-92

The voices of the company's shareholders, in the annual general meetings, are another source of information on public demands and societal expectations. Some of the pressure groups in Britain have used this method to persuade a company's management to take an initiative. For example, representations of the Social Audit group were made with, and on behalf of, the Doncaster and District Clean Air Group at the 1972 Annual General Meeting of Coalite and Chemical Products Limited to convince the management to make social improvements.[25] Some issues of social concern, such as abatement of environmental pollution, employment and advancement of women and disadvantaged groups, and operations in South Africa, have been raised in such a meeting.

Such sources of information would give the company's executives indications of the levels and directions of society's demands and expectations. Furthermore, the company can look at what other companies, in the same line of industry, are doing. The company can rely on the other studies and surveys, which are still valid, well organised and documented, conducted in this field. Examples of such studies include "Towards a Code of Business Ethics", conducted on behalf of the Christian Association of Business Executives, by Simon Webley, in 1972;[26] "Corporate Social Responsibility", conducted on behalf of Public Relations Consultants Association, by Simon

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[25] See: "Social Audit", Vol.1, No.4, Spring 1974, pp.6-8

[26] Simon Webley, "Towards a Code of Business Ethics", A Consultative Document (London: The Christian Association of Business Executives 1972). In the light of this study, the Christian Association of Business Executives published its final definitive version of "Code of Business Ethics, in September 1974

Webley, in 1974;[27] and "Towards Social Responsibility: Company Codes of Ethics and Practice", conducted on behalf of the British Institute of Management, by J. Melrose-Woodman and I. Kverndal, in 1976.[28] The company's executives can also be aided by a survey of social responsibility involvements of leading British companies as disclosed in their Annual Reports and Accounts. Yet, such a survey has not been conducted by anybody in Great Britain.[29] The researcher will therefore carry out a survey of this kind of Annual Reports and Accounts of the top 265 companies of the 1977/1978 Times 1000 to fill this gap.[30]

Considering all these sources of information, discussed above, several lists of society's demands and expectations have been suggested from which a company might choose to meet its social responsibilities. The first comprehensive list of societal expectations has been prepared by the Research and Policy Committee of the Committee for Economic Development.[31] The list, Exhibit 2.1, includes fifty-

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[27] Simon Webley, "Corporate Social Responsibility", Report on a Survey, op. cit.,

[28] J. Melrose-Woodman and I. Kverndal, "Towards Social Responsibility: Company Codes of Ethics and Practice", op. cit.

[29] In the United States, this kind of survey has been yearly conducted by Ernst and Ernst (an accounting company) since 1971. [See: Ernst and Ernst, "Social Responsibility Disclosure", 1971 Survey of Fortune 500 Annual Reports, and after, (Cleveland, Ohio: Ernst and Ernst, 1971-1978).]

[30] The analysis of that survey's results will be presented in Chapter VII of this thesis.

[31] Committee for Economic Development, "Social Responsibilities of Business Corporations", A Statement on National Policy by the Research and Policy Committee, (New York: Committee for Economic Development, June, 1971), pp.37-40. Also see a large scale investigation on the scope of this list, in: John J. Corson and George A. Steiner, "Measuring Business's Social Performance: The Corporate Social Audit" (New York: Committee for Economic Development, 1974), pp.27-29

Exhibit 2.1

Spectrum of Corporate Social Responsibility Activities

Economic Growth and Efficiency

- increasing productivity in the private sector of the economy
- improving the innovativeness and performance of business management
- enhancing competition
- cooperating with the government in developing more effective measures to control inflation and achieve high levels of employment
- supporting fiscal and monetary policies for steady economic growth
- helping with the post-Vietnam conversion of the economy

Education

- direct financial aid to schools, including scholarships, grants, and tuition refunds
- support for increases in school budgets
- donation of equipment and skilled personnel
- assistance in curriculum development
- aid in counselling and remedial education
- establishment of new schools, running schools and school systems
- assistance in the management and financing of colleges

Employment and Training

- active recruitment of the disadvantaged
- special functional training, remedial education, and counselling
- provision of day-care centers for children of working mothers
- improvement of work/career opportunities
- retraining of workers affected by automation or other causes of joblessness
- establishment of company programs to remove the hazards of old age and sickness
- supporting where needed and appropriate the extension of government accident, unemployment, health and retirement systems

Exhibit 2.1 (continued)

Civil Rights and Equal Opportunity

- ensuring employment and advancement opportunities for minorities
- facilitating equality of results by continued training and other special programs
- supporting and aiding the improvement of black educational facilities, and special programs for blacks and other minorities in integrated institutions
- encouraging adoption of open-housing ordinances
- building plants and sales offices in the ghettos
- providing financing and managerial assistance to minority enterprises, and participating with minorities in joint ventures

Urban Renewal and Development

- leadership and financial support for city and regional planning and development
- building or improving low-income housing
- building shopping centres, new communities, new cities
- improving transportation systems

Pollution Abatement

- installation of modern equipment
- engineering new facilities for minimum environmental effects
- research and technological development
- cooperating with municipalities in joint treatment facilities
- cooperating with local, state, regional and federal agencies in developing improved systems of environmental management
- developing more effective programs for recycling and reusing disposable materials

Exhibit 2.1 (continued)

Conservation and Recreation

- augmenting the supply of replenishable resources, such as trees, with more productive species
- preserving animal life and the ecology of forests and comparable areas
- providing recreational and asethetic facilities for public use
- restoring aesthetically depleted properties such as strip mines
- improving the yield of scarce materials and recycling to conserve the supply

Culture and the Arts

- direct financial support to art institutions and the performing arts
- development of indirect support as a business expense through gifts in kind, sponsoring artistic talent, and advertising
- participation on boards to give advice on legal, labour and financial management problems
- helping secure government financial support for local or state arts councils and the National Endowment for the Arts

Medical Care

- helping plan community health activities
- designing and operating low-cost medical-care programs
- designing and running new hospitals, clinics, and extended care facilities
- improving the administration and effectiveness of medical care
- developing better systems for medical education, nurses's training
- developing and supporting a better national system of health care

Exhibit 2.1 (continued)

Government

- helping improve management performance at all levels of government
- supporting adequate compensation and development programs for government executives and employees
- working for the modernisation of the nation's governmental structure
- facilitating the reorganization of government to improve its responsiveness and performance
- advocating and supporting reforms in the election system and the legislative process.
- designing programs to enhance the effectivenees of the civil services
- promoting reforms in the public welfare system, law enforcement, and other governmental operations

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Source: Committee for Economic Development, "Social Responsibilities of Business Corporations", A Statement on National Policy by the Research and Policy Committee, (New York: Committee for Economic Development, June, 1971), pp. 37-40 eight activities in ten major programme areas of corporate social responsibility.

This list of specific corporate social responsibility areas highlights the diversity of problems and issues which have been brought under the title of "corporate social responsibility". It is very broad in scope. The list includes activities which are internal in, and external to, a company. It also includes activities which are voluntarily undertaken by a company and others which are legally required. Moreover, the list includes activities which are undertaken in order to make a profit (traditional economic activities) and those which are performed without expecting a direct profit (with specifically social intent). But, this list is by no means exhaustive.[32] If the emphasis is on social problems, several other problems can be added to the list. Examples of these problems are poverty, crimes in the streets, alcoholism, population congestion, transportation congestion, companies' operations in South Africa, and many other problems.

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[32] For more recent and detailed lists of corporate social responsibility activities, see for example:

- D.E. Dunnock, "Social Responsibility in Practice", Cost and Management, September-October 1973, pp.6-13

- Keith Davis and Robert L. Blomstrom, "Business and Society: Environment and Responsibility", 1975, op. cit., pp.8-10

- Robert H. Anderson, "Social Responsibility Accounting: What to Measure and How", Cost and Management, September-October 1976, pp.34-38

- L.D. Parker, "Accounting for Corporate Social Responsibility: The Task of Measurement", The Chartered Accountant in Australia, October 1977, pp.5-15

Ernst and Ernst, "Social Responsibility Disclosure" 1978 Survey, op. cit., pp.22-28

This list illustrates, however, that there is no consensus about the scope of socially responsible activities from which a company might choose. It also suggests the likelihood that any two companies will not find themselves equally subject to difficulties in any one specific area of social concern.

What to Cover in Corporate Social Reporting:

When the scope of corporate social responsibility activities is thus broadly defined, and if accounting for corporate social responsibility performance is to list all such activities, measure and report the costs associated with those activities, it becomes impractical, if not impossible, to develop such an accounting and reporting system at this early stage, and the information it would produce would likely be inaccurate and too massive to be useful. Therefore, limiting the scope of corporate socially relevant activities to be covered in corporate social reporting would seem to be logical in the initial stages.

There are several ways of limiting the coverage of corporate social reporting. One way might be to concentrate only on those activities which are not part of the basic traditional business.[33] Corporate social reporting should be first restricted at the start to those activities which have a specifically social, as opposed to economical, intent. The Committee of the National Association of Accountants on Accounting for Corporate Social Performance seems to advocate this way.[34] The Committee has suggested four major areas

33 See: Raymond A. Bauer, "The Corporate Social Audit: Getting on the Learning Curve", California Management Review, Fall 1973, pp. 5-10

34 The Committee of the National Association of Accountants on Accounting for Corporate Social Performance, The First Report, Management Accounting (U.S.A.), February 1974, pp.39-41

of social activity to be measured and reported on. These areas include: (a) Community involvement, (b) Human resources, (c) Physical resources and environmental contributions, and (d) Product or service contributions. A list of items under each of the four major areas, Exhibit 2.2 on pages 45 to 47, has been identified, and explanatory comments following each item have been given, by the Committee.[35]

This list of major areas of social performance has been gaining wide agreement among academic and professional bodies and businessmen in the United States since it was published by the Committee early in 1974.[36] However, the list is not intended to be all inclusive. Neither should items listed be all covered in corporate social reporting. A company can carry on activities not included in this list, or it can further limit the coverage of its social responsibility accounting, depending on the situation of the particular company and the preferences of its management.

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[35] Ibid., p.41

[36] See: The Committee of National Association of Accountants on "Accounting for Corporate Social Performance", Second Progress Report, Management Accounting (USA), September 1974, pp.59-60

and "Measuring Costs of Social Action", Third Status Report, Management Accounting (USA), September 1975, p.60, Also see:

- Andrew H. Barnett and James C. Caldwell, "Accounting for Corporate Social Performance: A Survey", Management Accounting (U.S.A.) November, 1974, pp. 23-26

- I. Wayne Keller, "Planning Corporate Social Performance", Management Accounting (U.S.), June 1975, pp.19-24

- Joel Siegel and Martin Lehman, "Own up to Social Responsibility", Financial Executive, March 1976, pp.44-48

- Robert H. Anderson, "Social Responsibility Accounting: What to Measure and How", Cost and Management, September-October 1975, pp. 34-38

Exhibit 2.2

Major Areas of Social Performance

A. Community Involvement

1. General philanthropy - Corporate support of educational institutions, cultural activities, recreational programs, health and community welfare agencies and similar eleemosynary organizations

2. Public and private transportation - Alleviating or preventing urban transportation problems, including the provision of mass transportation of employees

3. Health services - Providing health care facilities and services and the support of programs to reduce disease and illness

4. Housing - Improving the standard of dwellings, the construction of needed dwellings and the financing of housing renovation and construction

5. Aid in personal and business problems - Alleviation of problems related to the physically handicapped, child care, minority business, disadvantaged persons, etc.

6. Community planning and improvement - Programs of urban planning and renewal, crime prevention, etc.

7. Volunteer activities - Encouraging and providing time for employees to be active as volunteers in community activities

8. Specialized food programs - The provision of meals to meet the dietary needs of the aged, the infirm, the disadvantaged child and other groups

9. Education - The development and implementation of educational programs to supplement those of the public or private schools such as work study programs; and employee service on school boards, school authorities and college university trustee and advisory boards

B. Human Resources

1. Employment practices - Providing equal job opportunities for all persons, creation of summer job opportunities for students, and recruiting in depressed areas

2. Training programs - Providing programs for all employees to increase their skills, earning potential and job satisfaction

3. Promotion policies - Recognizing the abilities of all employees and providing equal opportunities for promotion

4. Employment continuity - Scheduling production so as to minimize lay-offs and recalls, maintaining facilities in efficient operating condition so that they will not have to be abandoned because of deterioration, and exploring all feasible alternatives to closing a facility

Exhibit 2.2 (continued)

5. Remuneration - Maintaining a level of total salaries and wages plus benefits which is in line with others in either the industry or community

6. Working conditions - Providing safe, healthful and pleasant working environment

7. Drugs and alcohol - Providing education and counselling for employees to prevent or alleviate problems in these and similar areas

8. Job enrichment - Providing the most meaningful work experiences practical for all employees

9. Communications - Establishing and maintaining two-way communication between all levels of employees to secure suggestions, to provide information as to what the company is actually doing and how each department's activities relate to the total corporate activity, and to inform employees' families and friends of corporate activities

C. <u>Physical Resources and Environmental Contributions</u>

1. Air - Timely meeting of the law and going beyond the law in avoiding the creation of, alleviating, or eliminating pollutants in these areas

2. Water - Timely meeting of the law and going beyond the law in avoiding the creation of, allevaiting, or eliminating pollutants in these areas

3. Sound - Timely meeting of the law and going beyond the law in avoiding the creation of, alleviating, or eliminating pollutants in these areas

4. Solid waste - Disposal of solid waste in such a manner as to minimize contamination, reduce its bulk, etc., and the design of processes and products which will minimize the creation of solid waste

5. Use of scarce resources - The conservation of existing energy sources, the development of new energy sources, and the conservation of scarce materials

6. Aesthetics - The design and location of facilities in conformance with surroundings and with pleasing architecture and landscaping.

D. <u>Product or Service Contributions</u>

1. Completeness and clarity of labeling, packaging, and marketing representation - Assurance that labeling and representation as to methods of use, limitations on use, hazards of use, shelf-life, quantity of contents, and quality <u>cannot be misunderstood</u>

Exhibit 2.2 (continued)

2. Warranty provisions - Adherence to all stated or implied warranties of a product with implementation through timely recalls, repairs or replacements

3. Responsiveness to consumer complaints - Prompt and complete responses to all complaints received

4. Consumer education - Literature and media programs to keep consumers informed of product or service characteristics, methods and areas of use of products, and of planned product changes or discontinuances

5. Product quality - Assurance through adequate control - "quality assurance" - that quality is at least equal to what customers may reasonably expect on the basis of company representations

6. Products safety - Design or formulation and packaging of products to minimize possibilities of harm or injury in product use

7. Content and frequency of advertising - Giving full consideration to the omission of any media material which may be adverse or offensive; and the avoidance of repetition to the extent that it becomes repugnant

8. Constructive research - Orienting technical and market research to meet defined social needs and to avoid creating social and environmental problems or to minimize such problems; e.g. energy consumption

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Source: The National Association of Accountants, the Committee on Accounting for Corporate Social Performance, "Accounting for Corporate Social Performance", the First Report, <u>Management Accounting</u> (U.S.A.) February 1974, p.41

More importantly, the usage of the term 'human resources' to describe the internal area of a company's social responsibility performance which is directed to the well-being of its employees is not appropriate. Accounting for a company's social performance, in relation to its employees may seem to include human resource accounting which is not quite the case. In Chapter IV, the researcher will therefore make a brief comparison between these two kinds of accounting to clarify this point.

Another way of limiting the coverage of corporate social reporting would be to further confine corporate social activities to those activities which relate most directly to the economic activities of a business firm. David Linowes, who has been termed by some[37] as the father of accounting for corporate social responsibility performance, appears to advocate this approach. Linowes suggests three areas of corporate social responsibility to be covered at the start in corporate social performance reporting. These areas are the "work itself" and the work environment, the production processes and their effect on the environment, and the products or services offered and their impacts on society.[38]

Also, Social Audit group, in Great Britain, seems to favour this way of limiting the coverage of corporate social reporting. The Social Audit group has proposed a programme of social responsibility

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37 Sybil C. Mobley, "The Challenges of Socio-Economic Accounting", The Accounting Review, October 1970, pp.762-768, p.762

38 David F. Linowes, "The Corporate Conscience", (New York: Hawthorn Books, Inc., 1974), p.56. For a list of items under each of these areas, and the comments on it, see the "Socio-Economic Operating Statement" proposed by David Linowes, which is presented in Chapter IV (Exhibit 4.10) of this thesis.

disclosure which covers four main areas relating directly to the economic activities of the business. These areas include employment practices and industrial relations, environmental pollution, consumer affairs, and military contracting.[39] The first three of these areas are similar to those proposed by David Linowes, and they are also in common with all other views. The fourth area of social reporting, however, which is military contracting, has not been touched by any of the recently published statements on the social responsibility of business organisations. Thus, the question of the manufacture of arms was highly emphasised by the Social Audit group,[40] and the term "merchant of death" was used to describe private arms manufacturers.[41]

However, after the Second World War, by which time the British government required the licensing of all exports of arms, attention turned from the private manufacture of arms to the responsibility of governments. But, the Social Audit groups believes that the responsibility does not lie solely with governments. It is believed that the arms manufacturers do their utmost to find markets, and to ensure that they are allowed the greatest possible freedom to expolit them.[42] If arms manufacturers could actually encourage wars, anywhere in the world, that would be good for their business.

The Social Audit group is concerned with reports on arms manufacturing by individual companies for several reasons.[43] One is to

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39 "Social Audit", Vol.1, No.2, Autumn 1973, pp.10-15

40 Ibid., pp.18-34

41 Ibid., p.18

42 Ibid., p.19

43 Ibid., p.22

illustrate the extensiveness of military contracting in business. Another reason is to provide the investors, employees, and the consumers with more information than is generally available to them, as a rough guide to the kinds of business they would like to support. Finally, the Social Audit group thinks that this issue is important enough to warrant wider attention and more critical examination than it actually receives at present.

Ethically, the involvement, or non-involvement, of a company in military business should indeed, be considered one of the main areas of corporate social responsibility performance. But, the requirement of disclosure of information on military contracting in the company reports, proposed by the Social Audit group, seems to be impracticable, and even impossible. There are three reasons to believe so. Firstly, because military business has traditionally been thought of as relatively poor investments, as they are exceptionally sensitive to political decisions. Secondly, because the disclosure of information on manufacturing of armaments can badly damage the public image of a company, especially if the company is also involved in consumer fields. Finally, and most importantly, the absence of useful information about military business is quite deliberate because this is simply the normal safeguard of the customer's interest.

A third way might be to further limit accounting for corporate social performance to non-product-related (or non-service-related) social impacts of business activities. Thus, a car manufacturing company would be concerned only with stationary pollution from its manufacturing activities, but not with pollution from the vehicles it manufactures. This approach, however, seems to be inadequate for some companies, particularly those ones dealing with consumer products.

However, this approach is pragmatic. As will be discussed in Chapter IV, this approach tries to avoid the practical difficulties associated with attempting to assess the social impacts of products, or services, on society as a whole, or on the environment, or on the consumers. Some social impact chains and ecological chains of products, or services, are very long and have very remote effects. How can social impacts of automobiles, for instance, be evaluated? And can one do this for many product lines in a multi-product company? In addition to this, how can the impact on consumers of a single company's products be assessed in a market where there are several other companies offering similar products?

Even for the companies dealing with consumer products, the area of consumerism has always been considered a very difficult one.[44] It is difficult for companies to report both the advantages and disadvantages of their products or services in the competitive market system. Even if this is valid for all companies in the same line of industry, it is certainly not for one specific company. This argument is supported by the results of a survey of 800 major American companies, conducted on behalf of the National Association of Accountants, by Marc J. Epstein, Eric G. Flamholtz and John J. McDonough, in 1977.[45] The Survey sought to draw on the experience of "live" organisations regarding their activities in the area of

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[44] See: Jan-Erik Gröjer and Agneta Stark, "Social Accounting: A Swedish Attempt", Accounting, Organizations and Society, Vol.2, No.4, 1977, pp. 349-386, especially pp.354, 385.

[45] Marc J. Epstein, Eric G. Flamholtz and John J. McDonough, "Corporate Social Performance: The Measurement of Product and Service Contributions" (New York: National Association of Accountants, 1977)

corporate social responsibility accounting, with particular emphasis on the area of product and service impact. Specifically, of the four impact categories used in the survey to define social responsibility accounting (community involvement, human resources, physical resources and environmental contributions, and product or service contributions), the survey revealed that product or service impact reflected the area of least involvement.[46]

Based on the principal findings of the survey, accounting for corporate social performance was at an embryonic stage of development so that product and service impact at best was a peripheral activity and at worst was not considered a constituent element of corporate social performance accounting, and attempts to measure and report product and service contributions are extremely limited.[47]

A fourth way of limiting the scope of corporate social reporting might be to concentrate on those issues which the users of the corporate social reports think are important. Thus, the scope of social reporting (like the scope of the financial reporting) is determined by the information needs of those it is designed to serve. If accounting for corporate social performance is initially designed for internal purposes only, that is for helping the management of a company in the decision-making process, the coverage of corporate social reporting would therefore be limited to those issues which the company's management is most concerned with. If accounting for corporate social responsibility performance, on the other hand, is designed for external reporting, that is to concerned

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[46] Ibid., p.62

[47] Ibid., p.15

shareholders, consumers, employees, social pressure groups, and the general public, the informational needs of those external groups should be identified and met in the corporate reports.

At the surface level, this approach appears to be appropriate. In fact, the users of corporate social reports, whose information needs on the company's social performance should be met, are still a controversial question. Moreover, this approach raises again the questions of what are the information needs of those user groups which should be met by corporate social reporting? And how can those information needs, especially of those external user groups, be identified by the company?

A fifth way would be to restrict the ocverage of corporate social reporting only to those social activities which are imposed on the company by society through the law and governmental regulations. This is the least approach of limiting the scope of accounting for corporate social performance, since mere compliance with the law and governmental regulations is, as mentioned earlier, the lowest level of corporate social conduct. However, this approach is still valid for initial purposes.

(These corporate social activities which are legally required will be closely examined in the next chapter. Moreover, the legal requirements for companies to disclose information about their social responsibility performance will be discussed in Chapter IV under a section entitled "the need for corporate social responsibility accounting".)

In the light of all this, there seems to be no basis on which to argue preference for any of these ways for determining the scope of corporate socially responsible activities to be covered in corporate social reporting. The choice ought to be made by each particular company according to its circumstances and the preference of its management. However, in the following section, the determining factors which limit the scope of the company's social responsibility involvement will be discussed, then some guide-lines, to help the company's management in choosing corporate socially relevant activities and in setting up priorities, will be offered.

IV. Choosing Corporate Socially Relevant Activities

There is no formula for all industries or individual companies for choosing corporate socially relevant activities. Until the Government further defines corporate socially responsibile activities through legislation and enforcement, it will have to remain a matter for each company to choose for itself. However, in choosing socially relevant activities, there are some determining factors and guiding considerations.

Determining Factors:

Choosing the concerns of social relevance to which the company should respond is confined by four determining factors. Firstly, profit maximisation is the dominant factor in corporate decisions and corporate performance is still primarily judged on the basis of economic criteria, namely productivity, profitability and growth.

A business firm is still considered to be predominantly an economic institution with a strong profit motive. It is not a philanthropic or welfare organisation. No one should expect a company voluntarily to endanger its ability to attract shareholder investment. There can be no growth without investment, which is inspired and financed by profits. If a company commits substantial sums of money to social purposes, it will significantly reduce its average return on capital which in turn will reduce growth rates, or lower market evaluation of its securities, or both. The company making inadequate profits will not survive for long. Moreover, the management of such a company cannot become involved in any socially relevant activity unless profits are adequate.

There is no question that business must generate profit to survive and flourish. The prime objective of the business should be a satisfactory rate of return on the investment of its owners. Without a satisfactory financial gain, social activities can neither be initiated nor expanded, and at times, must be discontinued. In this respect, the 1974 Report of the National Association of Accountants' Committee on Accounting for Corporate Social Performance recognised the relevance of profitability to corporate social performance. The Report says: "... profits are fundamental. Perpetuation of a private sector corporation and its potential for continued social contributions depends upon a satisfactory degree of profitability".[48] Consequently, a company which has profit levels well above the industry average is generally expected to assume social responsibilities of greater magnitude than a company much below the industry average.

However, business should be expected to take the long-range view and perform socially responsible actions which might temporarily lessen net profits but which are in the interest of profitability

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[48] The National Association of Accountants, the Committee on Accounting for Corporate Social Performance, The First Report, op. cit., p.40

of the company in the long run. It is clearly understood that long-term profitability is in the best interests of all concerned; shareholders, employees, government (as tax gatherer), and society at large. Good working conditions, pay and benefits for employees can lead to good industrial relations, a stable work force and a strong position for the company in the labour market, which in turn will probably lead overall to consistently higher productivity. Supporting higher education in the area where a company is located would have a long-term benefit to the company in terms of having a steady supply of well-educated and well-trained work force. Helping improve the local community may have a tremendous effect on the quality and productivity of the work force. Apparently, it is in the long-term interest of business to make social improvements, because people who have a better environment, education and opportunity make better employees, customers, and neighbours for business than those who are poor, ignorant, and oppressed.

On the other hand, a company cannot afford to sacrifice its long-term profitability to maximise its short-term profits. Failure to make social improvements results in costs which are not only social but also financial. For example, failure to prevent pollution may cost more to do in the future. Costs may involve restoring past damage and preventing current and future damage. To these costs should be added the effects of governmental intervention, the bad publicity, problems in recruiting labour and the public relations problems which will result. Obviously, there are hidden costs which have long-term implications.

In short, there can be no question of social objectives replacing business ones. Profit maximisation should remain as the corporate purpose in the long run, but it should be sought in a socially responsible way. The company must be profitable to survive, prosper and to afford socially responsibile activities. At the same time, social responsibility performance may contribute to the company's long-term profitability and non-performance of corporate socially responsible activities, on the other hand, can threaten the company's profitability in the long run or even its survival. Profitability and social responsibility are therefore closely linked.

Secondly, another one of the determining factors is corporate size and capability. Socially relevant activities differ with respect to size and capability of a company. A very large company with extensive resources and skills is expected to undertake many more socially responsible activities than a small company which might have to stick to its traditional business objectives to survive in a highly competitive market. The larger the size of the company, the greater should be its concern about social responsibility.

There are a number of reasons validating this judgement. These reasons include:

(1) The activities of individual large companies have a considerable impact on a large number of people and on society as a whole. As a company grows larger, it has more influence on sizeable groups of people whose interests and welfare are linked with the company. These people include employees, shareholders, customers and consumers, suppliers, community neighbours and the general public. The large company is better known to the public and society must therefore be more conerned about its activities. The company, in turn, must be concerned about its social responsibilities because it cannot separate itself from the rest of society.

(2) Closely associated with the preceding point is the idea of balancing corporate power and responsibility. Large companies have much social power, and corporate social responsibility protects all parties of the company and the general public against the abuse of such power by the company. Most persons who write on the subject have coupled corporate social responsibility with the problem of controlling corporate social power.[49] Power is usually taken to mean an ability to constrain or influence the options open to others. In this respect, the 1971 Policy Statement of the Committee for Economic Development, on Social Responsibilities of Business Corporations, stated:

> "The great growth of corporations in size, market power and impact on society has naturally brought with it a commensurate growth in responsibilties; in a democractic society, power sooner or later begets equivalent accountability."[50]

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[49] See for example:

- Charles Medawar, "The Social Audit Consumer Handbook: A Guide to the Social Responsibilities of Business to the Consumer", (London: The Macmillan Press Ltd., 1978), pp.3-6

- Michael Beasley and Tom Evans, "Corporate Social Responsibility : A Reassessment", (London: Croom Helm, 1978), especially pp.13-31

- Keith Davis and Robert L. Blomstrom, "Business and Society: Environment and Responsibility", op. cit., especially pp.38-53

- George A. Steiner, "Business and Society", op. cit., especially pp. 106-117

- Neil H. Jacoby, "Corporate Power and Social Responsibility: A Blueprint for the Future", op. cit., especially pp.196-198

- Fred L. Fry and Robert J. Hock, "Who Claims Corporate Responsibility? The Biggest and the Worst", Business and Society Review, Summer 1976 pp.62-65

[50] Committee for Economic Development, "Social Responsibilities of Business Corporations", op. cit., p.21

(3) Large companies can better afford, and are better equipped, to make social improvements in a professional way. Large companies have the necessary expertise, technology, material resources, and a substantial pool of management talent to deal with social problems. Although these resources have alternative economic uses, they are flexible enough for partial diversion if social priorities dictate this and if ways are devised to renew these resources as social activities are performed.

(4) Large companies are now being run by professional management which is often separated from the actual owners. Professional managers of large companies are more concerned with the interest-balancing of all individuals, groups, or organisations having an interest in any activity of the company, such as employees, shareholders, customers, suppliers, local community, government, the press, conservationists and social pressure groups. Moreover, the management of large companies is concerned with long-term profitability and survival as much as with short-term profits. Thus, professional managers of large companies are more likely to be prepared to trade off short-term profits to achieve social improvements which can be expected to contribute to the long-term profitability of the company.

On the other hand, the activities of individual small companies do not have such a significant economic and social impact on the community as a whole. Small companies are therefore less vulnerable to the national public opinion, though they are still subject to direct local pressure, than the big ones. Moreover, small companies have limited material resources and skills to devote to socially responsible activities, and their acceptance of social involvement will be highly influenced by the personal attitude of their owner-managers.

Small companies do not therefore have the same social responsibilities. They have some social responsibilities, but not many. They have certain capabilities for making social improvements, which may be of smaller consequence but not necessarily of lesser importance. For example, small companies have closer relations with their employees and local communities. They can therefore effectively contribute to those social issues of employee-relations and community-relations.

Thirdly, inevitably the particular activities of corporate social responsibility will be highly influenced by the nature of the industry in which the company is engaged. The effect of the nature of business and in particular the product manufactured is important for two reasons.[51] Firstly, the nature of business can, to a large extent, determine the relative priority of the company's socially responsible activities, for example, to the environment, to its customers, or to the health and safety of employees, or to the local community. Secondly, the industrial activities of some companies, especially those which cause pollution and consume valuable resources and diminishing raw materials, are more likely to attract public criticism and comment, or become the target of conservationist campaigns.

An advertising agency may choose to make honest advertising campaigns for the benefit of consumers in the social responsibility

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[51] See: J. Melrose-Woodman and I. Kverndal, "Towards Social Responsibility: Company Codes of Ethics and Practice", op. cit., p.22

it exercises. For a tobacco company, the effects of smoking cigarettes on the consumer would seem to be the central issues, and the company may elect to express its social responsibility in providing the consumer with the necessary information about the destructive consequences of the smoking habit, reducing his consumption, and reducing the hazardous substances in what he consumes. For a labour-intensive retail business, the company may choose to concentrate on its social responsibility towards its employees. A capital-intensive manufacturing company (chemicals, glass, steel, etc.) may express its social responsibility in conserving the natural resources and abating the environmental pollution. For a power company, social responsibility might be expressed through efforts to reduce air, land, and thermal pollution, and to improve the effectiveness of power consumption. The coal mining concern ought to have overriding interests in worker safety and health, pollution, and conservation of natural resources. For a car manufacturing company, attention should be directed towards product safety, reducing air and noise pollution, and conserving the natural resources (especially oil and metal).

It may be argued that this determining factor seems to be directed to the smaller company which has one line of products or renders some particular service. However, the large multi-product company is faced with the same problems, only more of them. It may not be easy for the large company to develop product-related responsibility since it has so many products of varying social significance. But this cannot change where the focus of corporate social responsibility should be. In fact, the larger company which produces tobacco, for instance, as one among many activities can better afford to take a truly responsible attitude towards that product than a smaller company specialising only in it.

Finally, corporate socially relevant activities might also differ with respect to the local community where the company is located. The local community is assumed to be represented by the surrounding social and physical environment within which the company operates, and on which the company has its primary influence. There is likely to be substantial variation between local areas, depending on several factors, such as community history, degree of industrialisation, type of problem being considered, the physical environment and its ability to absorb the pollutants generated by the company's activities, regulations of local authorities, and local community pressures. Accordingly, corporate socially relevant activities could be quite different and in some instances the local community determines the priorities.

For example, the social responsibilities of a company which is the main source of employment in a small town are a great deal more than the social responsibilities of a company which employs only four or five percent of the people in a big city. Also, a company which is located in a rural area does not have the same social responsibilities like a company which operates in a highly industrialised area. Moreover, the priorities of corporate socially relevant activities for the company's community involvement are probably decided in response to an internal pressure exercised by managers and workers who are locally recruited, or to local community pressures outside the company, exercised by local authorities or local social pressure groups.

Guide-lines:

Considering these determining factors discussed above, the following guide-lines, in their sequence, are suggested to help the company's executives in choosing socially relevant activities which the company might undertake, and in setting up their priorities.

(1) To start with, the company must undertake the socially responsible activities which are required by law. The existence of the law itself insures the priority ranking of those social actions prescribed by law. The existence of the law, the publicity it has received, the relative ease with which it can be invoked and the presence of a committed group responsible for enforcing its provisions (such as the Equal Opportunities Commission, the Racial Equality Commission, or the Health and Safety Commission and its Executive), make the company particularly vulnerable, and increase the costs of non-compliance, whether or not it is intentional.

However, the company should comply with the letter and spirit of the law not only because this is inescapable social behaviour, but also because those social activities which are required by law, are the most widely accepted activities the public want done by all companies, for the law prescribes public needs and societal demands. As mentioned earlier, the company's social performance in compliance with the law and governmental regulations is only a starting point for undertaking additional social actions. Socially relevant activities, which are legally required, are the minimal social actions and usually lag behind the public social needs and expectations in a rapidly changing social environment. The socially responsible company should therefore go well beyond the minimum legal requirements and be cognizant of the levels and directions of public expectations, which top management thinks are focussed on the company, as guides for company actions. Choosing those social actions which the company might further take can be based on the next six guide-lines discussed below.

(2) The company should select to alleviate, ahead of all other social concerns, the particular social problem which the company directly, either partly or wholly, causes. Thus, if a company pollutes the air, water, land, or disturbs the silence, its primary social responsibility is to abate pollution. If the production processes of a company endanger the health and safety of its workers, the company's primary social responsibility is to secure the health and safety of its employees at the place of work. Also, if a company produces a product which might jeopardise the safety or health of its customers, product safety will be the company's special social responsibility.

(3) The company might choose only those socially relevant activities to which it can effectively contribute in the context of its technology, skills, and the needed expertise to cope with the problem. Society as a whole is likely to be served best if every company concentrates only on what it can manage best.

(4) The company might select socially relevant activities which it can afford. A company may be able to contribute effectively to a particular social concern by adopting radically different procedures or by stressing previously unimportant activities. It is important therefore that the list of socially relevant activities which the company can manage should be reduced to those social activities the company can do at a relatively low cost.

The number of socially relevant activities to be chosen and the extent of the company's involvement in any one of them will depend on the discretionary sums of money devoted by the company for social improvements according to its financial and market position. It seems, however, that when a company can undertake socially responsible activities with almost no cost or a very small one, it has an obligation to do so. Fair employment practices and fair trading practices are examples of such social activities.

It is also assumed that the company in times of boom, when sales and earnings are growing and when the main problem for companies is coping with success, will devote a great deal more of money and management time to corporate social responsibility activities than in times of economic crisis.[52] However, in times of economic crisis, (combining inflation, stock market fluctuations, and reduced consumer demand, with shortage in energy and raw materials, and the liquidity crisis in the capital market), corporate socially responsible activities may revert to a low priority because the management of the company tends to focus its attention on business survival.

(5) The company's involvement in corporate social responsibility activities might begin within the company itself. The most immediate sphere of the social responsibility of a business company would be taken to be towards its employees. The socially responsible company with the necessary resources might, for example, provide working conditions above the statutory minimum and above those necessary to retain its work force.

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[52] See: Clark, C. Abt, "The Social Audit for Management" (New York: AMACOM, A Division of American Management Associations, 1977), pp.172-180

Also see: Sandra L. Holmes, "Executive Perceptions of Corporate Social Responsibility", Business Horizons, June 1976, pp.34-40

This is supported in the United Kingdom by the findings of a survey conducted by the Accounting Standards Steering Committee in 1975.[53] Based on the Committee's analysis of replies by 166 major British companies to an invitation to state the groups they recognise responsibilities to, the majority of companies (71.69%) stated that they recognised a responsibility to employees.[54] It is important to note, from the analysis of results of that survey, that the traditional companies' responsibility to their shareholders came second (68.67%), then a responsibility to customers came third (53%).[55]

However, the corporate socially responsible activities would be extended beyond the company's internal organisation to include interests which are in varying degrees outside the business unit according to the following two guide-lines.

(6) The company might choose those socially relevant activities with a direct social impact on the local community in which it is located. The company's involvement in community affairs; making charitable contributions; supporting education, housing, arts, transportation, beautification; and environmental pollution control, may benefit the company itself in terms of gaining customers, goodwill, and higher productivity of the employees by making the local community a better place for them to live.

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[53] Accounting Standards Steering Committee, "The Corporate Report", A Discussion Paper, (London: The Accounting Standards Steering Committee, July 1975)

[54] Ibid., Appendix 4, p.92

[55] Ibid.

(7) The company might finally select those socially relevant activities whose significant social impacts go beyond the company's location. These activities of wider social significance, or of international social impact, such as the company's contributions to support national campaigns against alcoholism and crimes, or assisting victims of natural disasters inside the country or abroad, should generally fall at the bottom of the company's priority list.

V. The Rationale for Initiating Corporate Socially Responsible Activities

The rationale for corporate involvement in socially responsible activities still needs to be developed. While the current mood to accept social responsibility of business organisations is still right and necessary, the motives are debatable.

Many arguments have been put forward about the motivation and logic of corporate socially responsible behaviour. These arguments are discussed below under the following headings:

- Avoiding social pressure.
- The changing social contract with business.
- Balancing corporate power and responsibility.
- The ethics or moral obligations of business organisations.
- Enlightened self-interest (or increased long-range profitability).

<u>Avoiding Social Pressure</u>:

Socially responsible activities may be undertaken by a business company in order to avoid pressure brought on it by the government, trade unions, social pressure groups, and public opinion generally.

Society is demanding more socially responsible activities from business organisations. If business organisations do not respond appropriately the consequence would be the increasing growth of restrictive laws, governmental regulations and social pressures resulting in so much interference in corporate decision making as to reduce the productivity of the company. The more business companies respond to society's demands and public expectations, the less pressure will be placed on the government to step in.

This rationale is a negative one. The motive of corporate social performance, according to this rationale, is simply to stay out of trouble. It is considered here, that companies are merely reacting to, or forced to act by, the current and potential social pressures. Consequently, this argument appears to deny any good intention in what a company is doing in the areas of corporate social responsibility activity. It does not give a company any credit for at least those social actions which are taken absolutely voluntarily to contribute to the solution of social problems or to satisfy the corporate conscience.

However, there is no relevant criteria by which one can know the real intention of a company's socially responsible behaviour. Thus, if a company's responsiveness to public demands and societal expectations is the ultimate goal, it is very hard to attack a company for taking social actions only to avoid social pressures because that is exactly what the company is doing: it is responding to society's demands and concerns. Even the most socially responsible companies ought to consider the avoidance of social pressure, but it cannot be taken as the sole rationale for corporate social responsibility performance. Certainly it is a valid rationale, but not the only one. The other rationales for a company's social involvement, however, are more positive.

<u>The Changing Social Contract with Business:</u>

The ultimate determinant of the structure and performance of any society is a set of mutual relationships, obligations and duties which are generally accepted by its citizens, government and organisations. Philosophers and political theorists have termed this set of common understandings "the social contract". They have noted that the contract is basically implicit in nature, despite the fact that the people have often tried to convert implicit to explicit expression through decrees, constitutions and bodies of law. Without such a contract, no less real or powerful for being implicit, a society would lack unity, order and continuity.

The concept of the implied social contract is an old one in Western civilization. It found early expression in the writings of the Greek philosopher Epictetus. It was central to the intellectual system developed by the British philosopher Thomas Hobbes, in the first half of the seventeenth century. Hobbes used his concept to rationalise the power of the state to compel obedience to the terms of the implied contract. A few decades later, John Locke, another British philosopher, converted this view of compulsion as the lever to the view of consent as the lever, that is the consent of the citizens to a relationship of reciprocal duties and obligations.[56] In the eighteenth century, the French philosopher Jean Jacques Rousseau expanded the idea into an intellectual system in which each member of society entered into an implicit contract with every other member, a contract which defined the norms of human

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[56] See: Melvin Anshen, "Changing the Social Contract: A Role for Business", <u>Columbia Journal of World Business</u>, November-December 1970, pp. 6-14

behaviour and the terms of exchanges and trade-offs among individuals and organisations, private and public.[57]

The notion of social contract, whether explicit or implicit, offers the basis for the legitimacy and responsibilities of business organisations. Business operates in a society via a social contract, basically, to serve the needs and expectations of society. Society gave business its charter to exist, and that charter can be amended or revoked at any time if business fails to satisfy society's needs and expectations. As the needs and expectations of society are not permanent, the social contract with business changes continuously.

Historically, when economic issues were overwhelmingly dominant, business was considered to have discharged its responsibility to society mainly by supplying the needs and wants of people for goods and services, by providing jobs and purchasing power, and by producing most of the wealth of the nation. The social contract stipulated that the specific and sole responsibility of business was to provide relatively stable economic growth. Economic growth, summed in the grand measure of gross national product, was considered as the source of all progress. The assumption was that social progress was a by-product of economic progress. As long as business provided this economic growth, it was not responsible for the external costs, created by business and borne by society generally, such as the costs of environmental pollution and the costs of unemployment or of retired workers. These external or social costs were not even recognised as costs, and hence were not

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[57] See extractions from: Jean Jacques Rousseau, "The Social Contract" 1762, in: Lee J. Seidler and Lynn L. Seidler, "Social Accounting: Theory, Issues and Cases" (Los Angeles, California: Melville Publishing Company, 1975), pp.43-49

accounted for. When these costs were clearly shown in terms of extreme personal hardship for individuals and groups, they were met by private charity, or they were not met at all. The social contract also stipulated that business organisations had no responsibility for the general conditions of life or the specific conditions in local communities and at the place of work.

Throughout the industrialised countries of the world, the terms of the historic social contract for business companies are now coming under critical attack because of the dissatisfaction of society with business' performance in meeting changing social needs and public expectations. The production of goods and services, the economic function which business performed remarkably well, is no longer the one central focus of the social system. Public expectations of business are now changing, and new attitudes towards business social responsibilities are coming into clearer focus. As basic economic needs are relatively well satisfied in advanced countries, social needs move in to dominate public expectations. For example, while black smoke from the chimney of an industrial plant was viewed in the past as a sign of prosperity because it symbolised much needed jobs and material well-being, it is now looked upon with disdain by the community because it pollutes the air. Thus, it is becoming obvious that social progress is not a by-product of economic progress. Social progress should be equally weighed in the balance with economic progress.

Recently, there has been a strong public demand that business companies should internalise, as costs of production, the traditional external or social costs of economic activities. Business organisations are now beginning to accept the internalisation of these costs as necessary costs of doing business. The social costs of environmental pollution are now being transferred from the public to the business organisations which cause the pollution. Moreover, the companies whose economic activities create safety hazards are now being compelled to internalise the costs of minimising these hazards by conforming with stipulated levels of acceptable risk or mandatory manufacturing and performance specifications. Some other social costs have been partially transferred to business companies, as in the case of unemployment or retired workers' pension.

Furthermore, business organisations are now being asked to assume more social responsibilities to serve a wider range of human values other than economic values. Business organisations are being asked to contribute to the quality of life and not merely to supply quantities of goods and services. Since public expectations are changing more in the direction of quality of life, it follows that the terms of the contract between society and business need to be redefined in order to bring business activities closer to social desires for a better quality of life so that business can remain viable. Since business exists to serve society, its future will depend on the quality of management's response to the changing expectations of the public. Accordingly, corporate commitment to social improvements is no longer merely a charitable activity, but possibly a decisive condition of organisational survival. Besides, corporate social commitments may contribute to the profitability of the company in the long run.

Balancing Corporate Power and Responsibility:

Corporate social responsibility may arise from corporate social power. Corporate power is manifest in the ability of a company to influence the activities of others without being commensurately influenced itself. It is based on relative freedom from constraints. This power can be subject to abuse and corruption. Therefore, the demand for responsible power becomes increasingly direct. There is much social pressure demanding that corporate power must be controlled effectively and should be used for the benefit of all parties who are subject to this power.

Traditionally, the concept of corporate power has been related to the economic power which companies can exercise in their markets. This economic power stems partly from command over resources, and partly from the ability of business to meet public needs and expectations. The command over resources arises in turn from the historical logic of legal ownership as afforded by property rights (the full use or disposal of the property). According to this logic of property rights, the full use of industrial property consists primarily of an effort to maximise its value, or, in other words, to make the maximum profit possible for the owners of such a property.

However, the extensive separation of ownership and control, and the strengthening of the powers of control, raise the question of whether social and legal pressure should be applied in an effort to insure corporate operation primarily in the interests of the owners, or whether such pressure should be applied in the interests of others such as the employees, the consumers, and the general public. The classical answer,[58] based on legal ownership (or property rights), is that all the powers granted to management and control are powers in trust. As trustee for the owners of a company, the management is running and controlling the company for the benefit of the owners. The only responsibility of the company's managers, in the classical view, is economic responsibility to the owners (shareholders) which is generally to maximise profits.

Following the traditional logic of ownership (property rights), it can be argued that society always expects that property rights will be used in a socially responsible way. Society makes property rights not absolute, for owners are restrained from using their property in such a way that it would be damaging to others. It can also be argued that in addition to the traditional role of economic entrepreneurship, business companies now have a new social role of trusteeship. Society has entrusted to business large amounts of society's resources to meet human needs, and business is therefore expected to run these resources for the interests of society.

Just as owners (and creditors) invest, and risk, individually financial resources from which they expect to get profits (and interests), society invests common resources, and risks its natural resources, for which it also expects to receive certain social

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[58] See: Milton Friedman, "Capitalism and Freedom", (Chicago: University of Chicago Press, 1962), especially pp.120-136. Also see:

- Theodor Levitt, "The Dangers of Social Responsibility", Harvard Business Review, September-October, 1958, pp.41-50, and "Business Should Stay out of Politics", Business Horizons, Summer 1960, pp.45-51 benefits. Thus, society's equity in the company is accorded in recognition of the fact that companies make profitable use of not only purchased goods and services, but also of common resources. Therefore, the corporate managers have social responsibility to society along with their traditional economic responsibility to shareholders.

However, this historical argument of property rights no longer applies to the business enterprise in the modern economy. Historically, the ownership has always involved two elements: (1) the risking of property in profit-seeking enterprise, and (2) the ultimate management and control of that property. But in the modern enterprise, with its separation of ownership and control, these two functions of risk and control are, in the main, performed by two different groups of people. While the ultimate management and control are exercised by professional managers, the shareholders of the company have become risk-takers and mere suppliers of capital, just like the lenders to the company. This is supported by law, for the law has granted the company a legal personality which is separate and distinct from its owners.

Moreover, the large modern company, with a vast number of shareholders, creditors, workers, suppliers, and customers whose interests are combined in single enterprises, is so different from the small, privately-owned companies of the past as to make the traditional concept of property rights an ineffective instrument of analysis. It must be replaced with a new concept of a public company, namely one which represents the organised activity of vast bodies of individuals, workers, consumers and suppliers of capital, under the leadership of the professional managers of industry.

The professional managers of the modern company are public trustees balancing the interests of many diverse participants and parties in the company, whose interests sometimes conflict with those of others. The professional managers of the modern large company, due to the impact of business on society and society's expectations and demands of business, have also been exposed to concepts of business and its relations with society which were not available to the company's managers in the past.

In addition to the traditional economic power, the concept of corporate power applies equally to corporate social power. This corporate social power derives from the social consequences of corporate economic activities. Since economic actions of business companies do have social consequences, businessmen should therefore become concerned with social as well as economic outputs and with the total effect of the actions of their companies on society.

Business companies have immense social power in such areas as minority employment; health, safety and welfare of employees; product safety; local community improvement; and environmental pollution control. Thus, a just relationship requires that business companies should also have social responsibility for their actions in these areas. The corporate social power should be matched by commensurate social responsibility. This equation of balanced power and responsibility protects the interests of all parties of the company and those of the community at large.

This idea of balanced power and responsibility is supported by one of the rules of scientific management that authority and responsibility should be balanced in such a way that each manager and employee is made responsible to the extent of his authority, and vice versa. Although this rule refers only to internal relationships within the company, it also applies to external relationships outside the company. Where there is power, there is also responsibility, and the amount of responsibility will be approximately commensurate with the amount of power.

Business companies which ignore responsibility for their social power are threatened by what Keith Davis and Robert L. Blomstrom call the Iron Law of Responsibility: "In the long run, those who do not use power in a manner which society considers responsible will tend to lose it".[59] Originally, this idea has also been presented by Howard R. Bowen when he says: "It is becoming increasingly obvious that a freedom of choice and delegation of power such as businessmen exercise would hardly be permitted to continue without some assumption of social responsibility".[60]

This idea is supported by the increasing legislation and governmental regulations to force companies to accept responsibility for the well-being of all groups, who may be affected by the activities of companies, and of society generally. It is also supported by the growth of power by social interest groups, such as employee groups (unions), consumer groups, equal opportunity movements, environmentalist and conservationist groups, and other social pressure groups. With the existence of these legislation and

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[59] Keith Davis and Robert L. Blomstrom, "Business and Society: Environment and Responsibility", op. cit., p.50. Also see:

- Keith Davis, "Five Propositions for Social Responsibility", Business Horizons, June 1975, pp.19-24

[60] Howard R. Bowen, "Social Responsibilities of the Businessman" (New York: Harper and Brothers, 1953), p.4

powerful social interest groups, companies have found their powers either eroded or overthrown when they fail to use power responsibly.

Observable throughout the world, and in varying degrees of intensity, is this insistence that power in business organisations should be subjected to the same tests of public benefit which have been applied in their turn to power otherwise located.[61] In its most extreme aspect, this is represented in the communist movement, which in its purest form is an insistence that all of the powers and property rights should be used only in the common interest. In less extreme forms of socialist movement, transfer of economic and social powers to the state for public service is demanded. In the strictly capitalist countries, and particularly in time of depression, demands are constantly put forward that business organisations be made socially responsible.

The Ethics or Moral Obligations of Business Organisations:

The desire for a business company to be more socially responsible may derive from an ethical or moral viewpoint. Viewed philosophically, ethics derive their principles from reason, unassisted by divine revelation, but aided throughout by reflection on human experience.[62] Ethics are concerned not only with the relationship of means to ends, but also with the discovery and choice of the most reasonable ends.

Etymologically, the Greek word 'ethos' is the root form of 'ethica' (ethics). The word 'ethos' refers to a person's fundamental

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61 See: Adolf A. Berle and Gardiner C. Means, "The Modern Corporation and Private Property", Revised Edition, (New York: Harcourt Brace and World, Inc., 1968), p.310

62 See: William J. Byron, "The Meaning of Ethics in Business", Business Horizons, November 1977, pp.31-34

orientation towards life. Originally, the word meant a dwelling place or the internal character. The Latin translation of 'ethos', however, is 'mos', 'moris' from which the word 'moral' came.[63] In Latin, the emphasis shifts from internal character to external actions, habits, and customs. The Latin plural 'mores' is used in English as 'mores' to mean customs or manners of a people, or social behaviour. The English adjective 'moral' describes something which is acceptable as proper and good. In English, 'moral' is usually associated with external acts and the word 'morale' is employed to describe the inner disposition or the psychological state.[64]

Thus, the substance of corporate social responsibility arises from concern for the ethical consequences of a company's activities as they may affect the interests of others. This means that profit maximisation for the interests of a company's owners (shareholders), as the basic goal of business organisations, must not be sought at the expense of employees, customers, the physical environment, local community, and society in general. The socially responsible corporate managers must not only consider the interests of the company's shareholders, but must also take account of those affected by the activities of the company. Profit maximisation can only be pursued in a socially responsible way. The corporate mission should be a mixture of selflessness and selfishness. This idea exists in most religions of the world. (Specifically, the religious emphasis most clearly set forth by Catholic writers and typified by the work of Father Baumhart.[65] Less specifically, theological treatments of

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[63] _Ibid_., p.32

[64] _Ibid_.

[65] R. Baumhart, "How Ethical Are Businessmen?", _Harvard Business Review_, July-August 1961, pp.6-19. Also see: R. Baumhart, '_Ethics in Business_", (New York: Holt, Rinehart and Winston, 1968).

the same theme are scattered throughout the literature.)[66]

The greatest of the Christian virtues is love. Love is the heart of the Gospel, the most precious attribute of God. Everyone is commanded by the teachings of religion, to love all the inhabitants of the earth, even his enemies, as himself. But one clearly cannot feel the same depth of emotion towards all the others that he feels for himself or those who are near to him. The claims of love could be reduced, therefore, to a practicable dimension by defining and limiting responsibility of every individual, group, or organisation.[67]

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66 See for example:

- Benjamin M. Selekman, "A Moral Philosophy for Management", (New York: McGraw-Hill Book Company, 1959), especially pp.206-219

- John W. Clark, "Religion and Moral Standards of American Businessmen", (Cincinnati: South-Western Publishing Company, Inc., 1966), especially p.172

- T.A. Petit, "The Moral Crisis in Management", (New York: McGraw-Hill Book Company, 1967.)

- P.T. Heyne, "Private Keepers of the Public Interest", (New York: McGraw-Hill Book Company, 1968)

- John J. Corson, "Business in the Humane Society", (New York: McGraw-Hill Book Company, 1971.)

- J. G. Simon, C.W. Powers and J.P. Gunnemann, "The Ethical Investors" (New Haven: Yale University Press, 1972)

- D.E. Hussey, "Corporate Planning: Ethics and Social Responsibility", The Accountant, September 21st, 1972, pp.355-357

- K.R. Andrews, "Can the Best Corporations Be Made Moral?", Harvard Business Review, May-June 1973, pp.57-64

- Christian Association of Business Executives, "A Code of Business Ethics", (London: Christian Association of Business Executives, September, 1974)

- Michael Greener, "Ethics and Responsibility in Business", The Accountant, July 10th, 1975, pp.40-42

67 See: Kenneth E. Boulding (Ed.), "Beyond Economics: Essays on Society, Religion and Ethics", (Ann Arbor, Michigan: The University of Michigan Press, 1968), pp.212-218

The idea of corporate social responsibility is certainly not to be identified with love, but perhaps it is a reasonable first approximation of love, especially in dealing with the complex relationship of economic life. At a high level of abstraction, corporate social responsibility implies certain extensions of self-interest, in that businessmen are concerned for the welfare of the others as well as for themselves. This extension of self-interest, to include the interests of those affected by the company's activities and of society at large, is implied in the concept of Christian love.

The Christian Association of Business Executives, in Great Britain, seems to favour this approach and has drawn up "A Code of Business Ethics" for companies and their officials in all sectors of industry and commerce.[68] A Code devised by a Christian Association must be based on a Christian view of the nature of man and society. The Christian Association's Code presupposes that the so-called mixed economy is morally acceptable: a partnership of public and private enterprise; that the way to deal with private property is not to abolish it but to work for its fair distribution; that the private enterprise system has unlimited potential as a servant of society. What is morally unacceptable to the Christian Association's Code, is that anyone or any social sector should seek to use the system for selfish or sectional ends at everyone else's expense.[69]

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[68] Christian Association of Business Executives, "A Code of Business Ethics", op. cit., p.3

[69] Ibid., p.6

The British Institute of Management too, appears to encourage companies to adopt written codes of ethics and practice. In addition to publishing its "Code of Best Practice Incorporating the Code of Conduct" dealing generally with corporate social responsibility,[70] the British Institute of Management has also published its recent Management Survey Report dealing specifically with the issue of ethics and moral obligations of business, under the title of "Towards Social Responsibility: Company Codes of Ethics and Practice".[71] A number of large, primarily manufacturing companies have already issued such codes.[72]

Moreover, the idea of drawing up a code of business ethics gets some support in both the 1973 Final Report of the Company Affairs Committee of the Confederation of British Industry,[73] and the Conservative Government's White Paper of 1973.[74] Both the 1973 White Paper and the 1973 Final Report agree in principle that for the company's social responsibilities, an official code of conduct might be appropriate. But in the White Paper's view, for a code to be effective in that area of responsibility which the White Paper has

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[70] British Institute of Management, "Code of Best Practice Incorporating the Code of Conduct with Supporting Guides to Good Management Practice", (London: British Institute of Management, July 1974), p.4

[71] J. Melrose-Woodman and I Kverndal, "Towards Social Responsibility: Codes of Ethics and Practice", op. cit., especially pp.14-15

[72] Ibid., pp.6-7, 21-25

[73] Confederation of British Industry, the Company Affairs Committee, "The Responsibilities of the British Public Company" The Final Report, op. cit., paras. 9 and 13, pp.3-5

[74] Department of Trade and Industry, "Company Law Reform", Cmnd. 5391 [London: Her Majesty's Stationery Office (H.M.S.O.), July 1973], para. 57, pp.19-20

described as 'social' or 'moral', it would need some external sanction. The 1973 White Paper suggested, therefore, that "some independent source of judgement may be necessary".[75]

Speaking of codes of social conduct, based on moral grounds, the researcher believes that a voluntary code, without legal enforcement and sactions, would seem to be largely unworkable, for it would have little or no effect on those companies which were determined to lag behind. A preferable method to enable companies to adopt a code of business ethics might be either to adopt in a general legislation provision the moral principles and values embodied in a code, or to add a code of business ethics as an appendix to a new Companies Act, like the Code of Industrial Practice appears as an appendix to the Industrial Relations Act 1971.

However, if any code of business ethics is to be successful, it should be accepted by the business community. But the problem is that the moral consensus, which might enable companies to recognise a code of business ethics, does not exist. Without such a consensus, there is little chance of having a code adopted voluntarily, and there would be even less to be said in favour of having it imposed. Moreover, because of the views some hold[76] about the relationship between self-interest and morality, and about the role of self-interest as the motivation for business generally, there is

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[75] Ibid., p.20

[76] See for example:

- Simon Webley, "Towards a Code of Business Ethics", op. cit., especially pp.3, 34 and 38

- Lee E. Preston, "Corporation and Society: The Search for a Paradigm", Journal of Economic Literature, June 1975, pp.434-453 a suspicion that a code of conduct, based on moral considerations, may be run entirely counter to the policy of self-interest, as a policy of total selfishness, and that could adversely affect the basic economic activities of the business organisations. Morally, companies should not be run for the exclusive interests of the shareholders at the expense of others who may be equally affected by business actions, nor should it be run for the public interest at the expense of the shareholders. The researcher believes that a company's self-interest is soundest in the long run when its economic goals recognise social constraints and social objectives acknowledge economic realities.

Enlightened Self-Interest (or Increased Long-Range Profitability):

The most prevailing stated rationale for initiating socially responsible activities is that they are in the 'enlightened self interest' of business organisations.[77] 'Enlightened' implies a self-interest which takes a broad, long-range view. The Institute of Directors seems to advocate this approach. In the most recent revisions of its "Standard Boardroom Practice", now re-named "Guidelines for Directors: Incorporating Standard Boardroom Practice", the Institute of Directors has encouraged directors of

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[77] See for example:

- William J. Baumol, "Enlightened Self-interest and Corporate Philanthropy", in: William J. Baumol, Rensis Likert, Henry C. Wallich and John J. McGowan, "A New Rationale For Corporate Social Policy", Supplementary Paper Number 31, (New York: Committee for Economic Development, December 1970), pp.3-19

- Committee for Economic Development, "Social Responsibilities of Business Corporations", op. cit., pp.25-34

- Raymond A. Bauer and Dan H. Fenn, Jr., "The Corporate Social Audit", (New York: Russell Sage Foundation, 1972), pp.62-65

- Robert W. Ackerman and Raymond A. Bauer, "Corporate Social Responsiveness: The Modern Dilemma", (Reston, Virginia: Reston Publishing Co., Inc., 1976), pp.8-9 companies to think of their responsibilities in increasingly expansive terms.[78] While certainly according primacy to the needs of the company and of the shareholders, the Institute of Directors' publication recognises that clearly a company has certain social responsibilities to other parties which it must carry out for its ultimate well-being. The publication states:

> "Indeed, many directors would argue that the recognition of social responsibilities is not primarily a morel question (though it may be to some of us as individuals) nor merely operating within minimum legal requirements. Rather is it enlightened self-interest to the long term benefit of shareholders, employees, customers, suppliers and the public at large."[79]

This rationale of corporate social responsibility is based on economic grounds. It appears that almost all socially responsible activities undertaken by business companies could be justified in terms of the company's long-term profitability. In a sense, corporate social activities are consistent with basic economic principles. They are good business strategies. Corporate socially responsible activities contribute to the company's long-range profitability by promoting a better public image, providing a better operational environment, avoiding legal sanctions, and ensuring viability of business. Meanwhile, as mentioned earlier, failure to assume a fair measure of social responsibility by a business firm may actually endanger its economic interests in the long run.

The importance of this economic rationale for corporate

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[78] The Institute of Directors, "Guidelines for Directors: Incorporating Standard Boardroom Practice", (London: Institute of Directors, July 1978), pp.25-26

[79] *Ibid.*, p.25

socially responsible activities is that it bridges the gap between the opponents and supporters of business assuming social responsibilities. The opponents of corporate social responsibility define it as non-profit-maximising behaviour, undertaken to benefit those other than shareholders. Thus, they see an inherent conflict between social responsibility and profitability. Corporate social responsibility, according to this line of reasoning, is an added cost of doing business, a self-imposed tax which necessarily decreases profits, reducing the economic efficiency of the company. The strongest and most frequently quoted argument reflecting this position is Milton Friedman's statement: "... there is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud. Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible. This is a fundamentally subversive doctrine".[80]

Friedman's position, however, is on weak ground for three main reasons. Firstly, he seems to oppose only the voluntary involvement of business companies in socially responsible activities. When these social activities are legally required, he is agreeable. Friedman himself states that companies should stay within "the rules of the game", which of course include legislation. Therefore, there is no argument about a business obligation to assume social

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[80] Milton Friedman, "Capitalism and Freedom", op. cit., p.133

responsibilities which are required by law and governmental regulations. "The rules of the game" are now changing towards more corporate social responsibility since more social actions are increasingly being required by law. Thus, if business companies do not accept social responsibility involvement voluntarily, they will be obliged to do so.

Secondly, Friedman apparently has no objection to corporate social activity which arguably benefits the company and the shareholders, but he would not use the term "social responsibility" to describe such activity. Such activity, which might enhance profits, is described by Friedman as "public relations".[81] Friedman further argues that it would be in the company's self-interest if a company commits some of its resources to improve the conditions of the community where the company is located, and that "may be the cheapest way it can improve the quality of the labour it attracts".[82]

Thirdly, most shareholders hold shares in several companies, or invest through investment media which usually hold broad, diversified portfolios. Thus, the shareholders' interest is in the business system as a whole, and therefore in the development of a systemic context which is good for the business community generally.

Using sophisticated analytical procedures, Henry C. Wallich and John J. McGowan argue that diversification of ownership portfolios radically alters the interest of the shareholder.[83] They

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[81] John McClaughy, "Milton Friedman Responds", Business and Society Review, Spring 1972, pp.5-16

[82] Ibid., p.7

[83] Henry C. Wallich and John J. McGowan, "Stockholder Interest and the Corporation's Role in Social Policy" in: William J. Baumol, Rensis Likert, Henry C. Wallich, and John J. McGowan, "A New Rationale for Corporate Social Policy", op. cit., pp.39-59

show that types of social behaviour which benefit the corporate sector as a whole actually operate to the benefit of the holder of a diversified portfolio, and therefore a company's failure to be socially responsible deprives shareholders of benefits they might otherwise obtain. An example of this kind of responsible behaviour is the training of unemployed persons; even if an employee moves to another company, the benefit of his training is not lost to the diversified investor.

However, it should not be concluded, from the above discussion, that the argument against corporate social responsibility is groundless and has no substance. The merit of this argument is its insistence that the market system places limits on what a company can do to solve social problems. Certainly, business companies cannot be expected to solve all of society's ills. The highly competitive market constrains companies from adding further to their costs, unless they can be sure that these additional costs (social costs) will be repaid in greater future profits.

At the other extreme, some supporters of corporate social responsibility argue that business companies have to engage themselves in socially responsible activities even at the expense of profitability. Implicit in this argument is that these supporters also see that corporate socially responsible behaviour conflicts with the profit-maximisation objectives of business companies. But these supporters rationalise corporate social responsibility on social or moral grounds rather than economic ones, (such as the previously discussed rationales of the avoidance of social pressure, of the social contract, of balancing corporate power and responsibility, and of the ethics and moral obligations to society).

Some other supporters of corporate social responsibility performance observe that the more socially responsible companies tend to be more profitable. Since social responsibility is a symptom of foresight, and foresight means good and profitable management, those supporters argue therefore that companies are profitable because they are socially responsible.[84] But it is not at all certain which comes first: profitability or social responsibility. One can also argue that the more profitable companies can afford to be more socially responsible. Hence, companies are socially responsible because they are profitable.

The researcher believes that although profit is not the only objective of the company, it is vital for survival and growth as well as for corporate involvement in socially responsible activities. On the other hand, as pointed out above, corporate social activities enhance the profitability and the viability of business companies. Therefore, the researcher thinks that corporate social responsibility and profitability are directly related and compatible. This all, however, depends on the kind of profitability and the kind of social responsibility involved. If profitability is narrowly defined as the maximising of profit in the short run, it is indeed incompatible with the costs of social involvement. Moreover, if socially responsible actions are defined, as in the argument against corporate social responsibility, as non-profit-maximising behaviour undertaken

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[84] See for example:

- James Brian Quinn, "Next Big Industry: Environmental Improvement" Harvard Business Review, September-October 1971, pp.120-131

- Joseph H. Bragdon and John A.T. Marlin, "Is Pollution Profitable?" Risk Management, April 1972, pp.9-18

- I. Robert Parket and Henry Eilbert, "Social Responsibility: The Underlying Factors", Business Horizons, August 1975, pp.5-10 to benefit those other than shareholders, then by definition they cannot be profitable. Also, if social responsibility is as broadly defined as to involve unlimited responsibility for solving all of society's problems, then it conflicts with the profitability of a business firm.

These definitions, of both corporate social responsibility and profitability, are extremes. But reconciliation is not impossible. Maximising profitability in the long run and, at the same time, limiting a company's social involvement, to those social activities which are related to its operating environment and its own interests, seem to be the best compromise. Thus, the company's managers should continue to seek opportunities which are both socially acceptable and profitable in the long run. The notion of enligh-tened self-interest or increased long-range profitability provides, here, the framework for reconciling corporate social responsibility performance and profitability.

With this economic incentive in mind, that is to increase long-term profitability, the company's managers can perform socially responsible activites more effectively. They will continue to use the profit criterion, though in the long run, when choosing socially responsible activities. But the problem with this economic rationale is that measuring a company's long-term self-interest or profitability is a very complicated task to achieve. The calcula-tion of long-range social costs and unrelated benefits of a company's social actions, as will be discussed later in this thesis, is very difficult, inaccurate and uncertain. The calculus of self-interest or long-range profitability will eventually result in a limited identification of corporate social activities where costs and penalties for non-performance are well known. Corporate managers are likely to be reluctant to initiate social activities where the associated costs and benefits are unrecognised or very difficult to quantify.

Moreover, the emphasis on corporate self-interest or profitability as the only motive for initiating socially responsible activities has the effect of obscuring the social conscience of a business company. Although corporate social actions might indirectly benefit the company, they are basically intended to directly benefit society as a whole, or one of its elements. Thus, the social intent should come first, then increased long-range profitability comes second and as a result. Consequently, this economic rationale cannot be taken alone as the motivation of corporate social responsibility performance.

From all the arguments about the rationale for initiating corporate socially responsible actions, discussed above, the researcher can conclude that they all go together. They all blend into each other. A company's involvement in socially responsible activities, such as fair employment practices, fair trading practices, philanthropic activities, local community improvements, and environmental pollution control, is not only in the long-range self-interest or profitability of the company, it is also moral and ethical behaviour. This also will result in the avoidance of social pressure. Furthermore, a company's responsiveness to society's demands and concerns in such a positive way, enhances the viability of the company in the long run in terms of complying with the changing social contract and of keeping the balance between corporate power and responsibility.

Summary and Conclusions

This chapter has examined the areas of corporate social responsibility performance to be covered in corporate social reporting. The chapter was divided into five main sections. In the first section, the nature of corporate socially responsible activities was discussed. The so-called "moving target nature" of socially responsible activities was examined. It was concluded that the nature of social activities does not change at all whether those activities are undertaken voluntarily by a business company or imposed on it by society through the law and governmental regulations. The following definition of corporate socially responsible activities was offered in order to clarify that point.

> Corporate socially responsible activities are those activities undertaken by the company, without expecting direct economic benefit, in compliance with the law and governmental regulations, over and above the requirements of the law, or undertaken voluntarily in response either to public pressure or to the plain sensitivity of management to social issues, for the purpose of improving the welfare of its employees, or public safety of the products, or conditions of the surrounding environment, or enhancing the social well-being of society at large.

It was also concluded in the first section of this chapter that corporate socially responsible activities which are legally required should not be eliminated from corporate social reports if the principles of continuity and consistency in accounting practice are to be observed in any system of accounting for corporate social responsibility performance.

In the second section, corporate socially responsible activities were classified from many different points of view: activities which are internal in, or external to a company; voluntary activities and activities which are legally required; the impact of corporate social activities on profits; and specific corporate social programmes. It was concluded that every company should identify a priority list of society's expectations and public demands since scarcity of resources makes the achievement of all socially desirable goals quite impractical.

Then, the identification of corporate socially relevant activities which may be undertaken by a company to meet the demands and expectations of society was discussed in the third section. The channels through which society conveys its demands on, and expectations from, business companies were presented. These channels include the law and governmental regulations; public interest and social pressure groups; mass media; voices of the company's shareholders in the annual general meetings; studies and surveys conducted in this field; and a survey of social responsibility involvements of leading British companies as disclosed in their annual reports and accounts. Since this latter channel, that is a survey of social responsiblity disclosures in annual corporate reports, has not been conducted by anybody in the United Kingdom, the researcher will carry out such a survey of annual reports and accounts of the top 265 companies of the 1977/78 Times 1000 in order to fill this gap. The results of that survey will be presented in Chapter VII of this thesis.

It was also concluded in the third section of this chapter that limiting the scope of corporate socially relevant activities to be covered in corporate social responsibility accounting would seem to be necessary in the initial stages. Severl ways of limiting the coverage of corporate social responsibility performance accounting were discussed. It was concluded that there seems to be no basis on which to argue preference for any of those ways for determining the scope of corporate socially responsible activities to be covered in corporate social reporting. The choice ought to be made by each particular company according to its circumstances and the preference of its management.

However, the determining factors which limit the scope of the company's social responsibility performance were discussed in the fourth section of this chapter. These determining factors include the profitability of the company; corporate size and capability; the nature of business; and the local community where the company is located. Nevertheless, some guide-lines were suggested to help the company's management in choosing socially relevant activities which the company might undertake, and in setting up their priorities.

In the fifth section of this chapter, the rationale for initiating corporate socially responsible activities was examined. Five rationales for corporate involvement in socially responsible activities were presented. These rationales include the avoidance of social pressure; the changing social contract with business; balancing corporate social power and responsibility; the ethics or moral obligations of business organisations; and enlightened self-interest or increased long-range profitability of the company. It was concluded that these rationales blend into each other and they all should go together.

The general conclusion which can be drawn from this chapter is that legislation and enforcement have played and will continue to play, important roles for the expansion of the corporate social responsibility performance issue. The next chapter will therefore be devoted to the issue of corporate social responsibility and the law.

CHAPTER III

CORPORATE SOCIAL RESPONSIBILITY AND THE LAW

The preceding chapter analysed the nature, classification and identification of corporate socially responsible activities to be covered in accounting for corporate social responsibility performance. Then the determining factors and guide-lines to be considered by the company's management in choosing socially relevant activities were discussed. Also discussed in the preceding chapter is the rationale for initiating corporate socially responsible activities.

In this chapter, the legal requirements governing the company's behaviour in the main areas of corporate social responsibility performance will be examined. The purpose of this chapter is to show the influence of legislation, including governmental regulations, on the assumption of social responsibility by business companies, and thus, on the need for reporting on corporate social performance.

The law has considerably influenced both the corporate response to assuming increased social responsibility and the need for business organisations to report on their social performance. In addition to the Companies Acts of 1948, 1967 and 1976, there are now at least minimal legal requirements governing each of the main areas in which business activities are likely to have an effect: employees, consumers and the environment. In some of these areas the amount of legislation is quite extensive. In some other areas the legislation lags behind the leading thinkers, so that while it may direct attention into certain areas it does not necessarily limit activity in those areas to the legal minimum but may even have the reverse effect of spurring business organisations to exceed it.

There is a long and complex history of legal developments. However, since this work is concerned primarily with the accounting implications of corporate social performance, detailed analysis of those legal developments is beyond its scope. Nevertheless, company law and some of the more significant legislation, including governmental regulations, are considered briefly in this chapter under the following headings:

I. Corporate social responsibility and the company law.

II. Employment practices.

III. Environmental pollution.

IV. Consumer affairs.

Since the existence of the law does not automatically guarantee that it will be enforced, it is not contended that the law and standards to be discussed here have been or will be completely effective in making all business firms participate in socially responsible activities. However, violation of these standards and laws is harmful to the social well-being of British society. Thus by determining whether the actions of individual firms are violating these laws and standards an idea of the social responsibility of the firm can be obtained.

I. Corporate Social Responsibility and the Company Law

The current legal standards under the Companies Acts of 1948, 1967 and 1976 are inadequate for defining the social responsibility of business organisations and their directors. Traditionally, British company law has been confined to delineating the constitutional relationship among shareholders, creditors and directors in terms of the structure of the company and the respective rights and duties of these parties. The relationship of the company with other interests and groups, equally affected by corporate activities, such as employees, consumers and the community at large has been ignored in company law.[1] This is not to say that these groups and their interests are not protected by statutory means, but they have been always left to the various branches of law, such as labour law, consumer law, environmental pollution law, etc.,[2] all of which bear on the social performance of companies.

However there have been serious attempts by the successive Governments for a reconsideration of the social responsibilities of British companies underlying company law. The Conservative Government's White Paper on Company Law Reform of 1973[3] is one of these attempts.

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[1] See, for example:

- Tom Hadden, "Company Law and Capitalism", (London: Weidenfeld and Nicolson, 1972), especially pp.44-90

- T. E. Cain, (Scottish Editor: Enid A. Marshall), "Charlesworth and Cain's Company Law", Eleventh Edition, (London: Stevens and Sons, 1977.) Also see:

- Cohen Committee Report, 1945, Cmnd. 6659, and Jenkins Committee Report, 1962, Cmnd 1749, (Both published in London by Her Majesty's Stationery Office (H.M.S.O.))

[2] These branches of existing law will, therefore, be considered more closely in this chapter as the main impetus for companies being involved in socially responsibility activites and thus for some form of corporate social responsibility accounting.

[3] Department of Trade and Industry, "Company Law Reform", Cmnd.5391, (London: HMSO, July, 1973)

The then Conservative Government recognised, in the context of company law, the generally accepted fact that ownership involves responsibilities as well as rights. This requires, the then Government believed, that company directors, on behalf of the shareholders, must discharge their social responsibilities as well as protect their legitimate interests.[4] One of the principal reasons for introducing this White Paper was believed to be that "issues of social responsibility, both towards employees in a company and to the community at large have rightly come much to the fore in public discussion, and there is a need to consider how far it is desirable and practicable to take further account of these by statutory means".[5]

Among the specific recommendations of the White Paper is the disclosure of information by public and large private companies which would "give shareholders and the public the chance to judge companies' behaviour by social as well as financial criteria".[6] Furthermore, Part Two of the 1973 White Paper, entitled "Wider Considerations", was almost dominated by issues relating to the social responsibilities of companies.

Included in Part Two of the White Paper is recognition that companies have responsibilities "of a more general and moral kind"[7] than those specifically identified or prescriptions which society defines through the general body of the law. The White Paper proceeded to suggest that formulation of a code of conduct might enable directors to consider those "wider responsibilities"[8] which are much

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[4] Ibid., para. 3, p.5

[5] Ibid., para. 5, p.6

[6] Ibid., para.12, p.7

[7] Ibid., para.56, p.19

[8] Ibid., para.57, pp.19-20

more difficult to specify and define than responsibilities which are amenable to legal definition. It also offered the possibility that greater public disclosure of companies' conduct would have the efficacious cumulative result both "in making companies more aware of their duties to and dependence on the community of which they are a part, and in helping the community to appreciate the real extent to which companies individually and collectively are contributing to social progress".[9] Also included in Part Two of the 1973 White Paper was the statement that the then Conservative Government believed that it was in the interests of all concerned, including the shareholders, that the employees should have an appropriate opportunity of influencing decisions which could closely affect their own interests, and the publication of a Green Paper on employee participation was promised.[10]

The White Paper was obviously influenced, with particular reference to those "Wider Considerations" concerning the public responsibilities of the company, by the recommendations of an interim report published early in 1973 by the Company Affairs Committee of the Confederation of British Industry (the C.B.I.).[11] However, shortly after the White Paper was presented to Parliament, the Company Affairs Committee of the CBI published its final report,[12] which noted several limitations inherent in the legal requirements for

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9 Ibid., para.58, p.20

10 Ibid., para.59, p.20

11 Confederation of British Industry, The Company Affairs Committee, "A New Look at the Responsibilities of the British Public Company: An Interim Report for Discussion", (London: Confederation of British Industry, January 1973.)

12 Confederation of British Industry, The Company Affairs Committee, "The Responsibilities of the British Public Company: Final Report", (London: Confederation of British Industry, September 1973.)

corporate social responsibility. The final report states that the law "sets minimum standards of conduct" and "mere compliance with the law does not necessarily make a good citizen or a good company".[13] Moreover, the report says that "one cannot look to the Companies Acts to provide a 'moral imperative'".[14]

However, the legal requirements, if properly set up, have a built in margin of safety to cope with the problem. The law will become the minimum, or a measure of initiative for the legal requirements force initiative. Nevertheless, the final report added impetus to demands for the inclusion of language in the Companies Acts which would encourage companies to "recognise duties and obligations (within the context of the objectives for which the company was established) arising from the company's relationships with creditors, suppliers, customers, employees and society at large; and in so doing to exercise their best judgment to strike a balance between the interests of the aforementioned groups and between the interests of those groups and the interests of the proprietors of the company".[15]

However, the White Paper and the Companies Bill 1973[16] which followed it were lost with the fall of the Conservative Government in March 1974. The Labour Party published a Green Paper on Company Law Reform, called "The Community and the Company", in May 1974.[17] One of the most interesting proposals of the Labour Party Green Paper was that there should be a two-tier management structure in Great

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[13] _Ibid._, para,20, p.8

[14] _Ibid._, para.23, p.9

[15] _Ibid._

[16] _Bill 52_, (London: HMSO, December 1973)

[17] Report of Working Group of the Labour Party Industrial Policy Sub-Committee, "_The Community and the Company, Reform of Company Law_", (London: The Labour Party, May 1974).

Britain,[18] a supervisory board and a management board such as is found in German companies. The management board, which would be responsible for day-to-day managerial functions, would be appointed by and supervised by the supervisory board. The supervisory board would be composed of shareholders' and workers' representatives.

More recently, the two-tier board system has been considered in depth in the "Report of the Committee of Inquiry into Industrial Democracy" (the Bullock Report), published in January 1977.[19] The Bullock Report also emphasised the relationship between business and society.

However, full implementation of the Bullock Report recommendations, which is most unlikely,[20] would require fundamental changes in the Companies Acts. These would, in essence, re-define the social role of the company, recognising it as a partnership between capital and labour conferring approximately equal rights to employees and shareholders. Underlying the strongly held views of proponents and opponents alike of the Bullock Report is a clear recognition that the implementation of the Bullock Report recommendations would have a profound effect on the fundamental social and economic bases of the British business company as it has operated for some 250 years.[21]

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[18] The two-tier or supervisory board system was opposed by the 1973 White Paper of the Conservative Government (para.60, p.21) and by the Final Report of the Confederation of British Industry, Company Affairs Committee, op. cit.,(paras. 116-123, pp.40-42).

[19] Department of Trade, "Report of the Committee of Inquiry on Industrial Democracy", (The Bullock Report), Cmnd.6706, (London: HMSO, January 1977).

[20] See: Edward M. Epstein, "The Social Role of Business Enterprise in Britain: An American Perspective", Part two, The Journal of Management Studies, October 1977, pp.281-316

[21] For more discussion on this point, see for example:

- "CBI Says 'No' to Talks on the Majority Report", The Financial Times, 27th January, 1977, p.25
- John Elliott, "A Jolt to Class Balance", The Financial Times, 27th January 1977, p.18

Additionally, a private members' Companies Bill was presented to Parliament late in 1977.[22] This Bill provides that the board of a company to which clause1 applies[23] shall include, in addition to any other directors, at least three non-executive directors of the company. The expression "non-executive director" is defined as a director who is not an employee of, and does not hold any other office or place of profit under, the company or any subsidy or associated company (clause 8). This part of the Bill closely follows the line of the Labour Government's Companies (No.2) Bill 1976,[24] which was enacted as the Companies Act 1976.

However, following a practice now well established in Canada and the United States, the Companies Bill 1977 goes on to provide that a company to which clause 3 applies[25] must appoint a committee of the board to be known as the 'audit committee', such committee must include at least three non-executive directors, at least half of the members of the committee must be non-executive directors, one of the non-executive directors must be chairman of the committee and the company secretary must act as secretary of the committee.

The researcher believes that these proposals of the Companies

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[22] Bill 38, (London: Her Majesty's Stationery Office, December 1977)

[23] Clause 1 applies to a company if it is registered in Great Britain, its shares are listed on a recognised stock exchange and at any time within the five years ending on the last day of its last accounting reference period, the company had more than 1,500 employees or more than £5 million total net assets.

[24] The first Labour Government's Bill 1974 was lost when Parliament was dissolved on 7th February 1974.

[25] Clause 3 applies to a company registered in Great Britain, whose shares are listed on a recognised stock exchange if at any time within five years ending on the last day of its last accounting reference period, the company had more than 10,000 employees or more than £100 million total net assets.

Bill 1977 and of the Green Paper 1974 relating to non-executive directors and employees' representatives on the company's board would, if enacted, serve the corporate social responsibility cause well. At this point, the researcher suggests that the non-executive directors of the company's board must include one or more representatives of all groups affected by company activities such as consumer and environmental protection groups, and the general public. If a company's board included representatives of employees, consumers, environmentalists and the general public, who will bring their own social background into the running of the business, as well as representatives of the shareholders, then the interests of all groups and of society at large would be better protected in terms of taking into account those interests in the corporate decision-making process.

Furthermore, the researcher believes that the company audit committee proposed by the Companies Bill 1977, is a good base for reporting on the company's social performance as well as economic performance. The researcher suggests here that the activities of the company's audit committee should be expanded from purely financial accounting, as proposed in the 1977 Bill (clauses 3-6), to include social responsibility accounting as well, to help the management of a company and the general public measure corporate social performance as well as corporate financial performance. It is believed that corporate social performance is usually an indicator of the future financial viability of the firm. Therefore, to implement a corporate social responsibility accounting, in a large corporation, the researcher would additionally suggest that the company's audit committee must include an expert on social responsibility accounting; a sociologist; a data collection team, which includes a survey designer, a social psychologist, a community affairs specialist and a statistician; and a data analysis team, which usually involves an operations researcher, a micro-economist, and a data processing systems analyst. This interdisciplinary team headed by an accountant is the best form, in the researcher's opinion, for the company's audit committee for reporting on the total performance of the directors and how they discharge their economic and social responsibilities. In addition, this form of the company audit committee is the best way to achieve the Conservative Government's demand in its 1973 White Paper for the disclosure of information in companies' annual reports which would give "shareholders and the public the chance to judge company's behaviour by social as well as financial criteria".[26]

From these continuing attempts at company law reform, the inadequacy of the existing company law to cope with the growing public concern about corporate social responsibility has become apparent. A new consolidating Companies Act, including provisions on social problems such as pollution, discriminatory hiring, job safety and product safety is very much required.

However, there are, though lacking in integration, some other separate branches of law controlling the business's behaviour in some areas of corporate social responsibility. These branches, in areas of employment practices, environmental pollution and consumer affairs, will be discussed in the following sections.

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[26] 1973 White Paper, Cmnd. 5391, op. cit., para.12, p.7

II. Employment Practices

The major issues of social concern in the area of corporate employment practices are: (1) sex discrimination, (2) racial discrimination, (3) employment of disabled persons, (4) employment of rehabilitated persons, and (5) health and safety at work. These issues and the related legislation are reviewed below.

(1) Sex Discrimination:

Traditionally in the United Kingdom and throughout the Western countries, there were virtually two separate labour markets: that for men and that for women. There was, of course, a small overlap area, but by and large there was customary men's work and women's work and these were rarely interchangeable.[27]

To a great extent, women are employed in lower-level jobs and are excluded from much well-paid and more responsible work which was regarded solely as men's jobs. This is clearly demonstrated by the high percentage of women who are classified as clerical workers and the very small percentage of women in management positions and even the small percentage in scientific and technical employment in all industries. The 10% Sample of the 1971 Census revealed the following figures for women's positions in all industries in Great Britain:[28]

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[27] See: Lady B.N. Seear, "The Impact of Social Change on Women", in: William K. Purdie and Bernard Taylor (Eds.), "Business Strategies for Survival", (London: Heinemann, 1976), pp.24-27

[28] Office of Population Censuses and Surveys, "Census 1971, Great Britain, Qualified Manpower Tables", 10% Sample, (London: HMSO, 1976), Table 13, pp.99-138, p.99

	Persons	Males	Females
All industries	2,372,411	1,517,630	854,781
Occupation order:			
Clerical workers	333,161	102,873	230,288
Sales workers	209,719	112,763	96,956
Administrators and managers	91,745	84,047	7,698
Professional, technical workers, artists	269,969	165,863	104,106
All other occupations	1,467,817	1,052,084	415,733

These figures show that there is a strong concentration of women in clerical jobs, a low concentration in professional and technical jobs, and a very low concentration in management positions. Thus, 27 per cent of women are doing clerical jobs (69 per cent of clerical workers); 11 per cent of working women are sales workers (46 per cent of sales workers); 12 per cent of working women are professional and technical workers (38 per cent of all professional, technical workers and artists); only one per cent of working women are in management positions (only eight per cent of administrators and managers); and 49 per cent of women are doing other jobs. Discrimination of this order is not simply confined to heavy work. The 10% Sample of the 1971 Census also showed the following figures for women's positions in insurance, banking, finance and business services where large numbers of women are employed:[29]

	Persons	Males	Females
Insurance, banking, finance and business services	91,585	47,228	44,357
Occupation order:			
Clerical workers	48,407	14,540	33,867
Sales workers	16,455	14,442	2,013
Administrators and managers	7,001	6,382	619
Professional, technical workers, artists	6,213	5,215	998
All other occupations	13,509	6,649	6,860

[29] Ibid., p.131

These figures show stronger concentration of women in clerical jobs and lower concentration in management and professional and technical jobs. Thus, 76 per cent of women employed in insurance, banking, finance and business services are doing clerical jobs (70 per cent of clerical workers); 4.5 per cent of women are sales workers (12 per cent of sales workers); 2 per cent of women are professional, technical workers and artists (16 per cent of professional, technical workers and artists); only one per cent of women are in management positions (only 9 per cent of administrators and managers); and 16.5 per cent of women are doing other jobs.

The most important reason for this sort of discrimination, on the ground of sex, was the traditional life pattern of the woman with family responsibilities, whereby work for women was a temporary interlude between school and family life. It was reasonable to argue, therefore, that when women work only for a few years the money spent on training them was money wasted. It was also true that without such training, women were unable to get their foot on the ladder leading to advancement and responsibility.[30]

This argument, however, has been undermined by the changed life pattern of women. There are approximately nine million women in paid employment now in the United Kingdom. It is now economically wasteful to make such poor use of this large number of working women who represent 40.4 per cent of the total workforce (9,174,000 women out of 22,707,000) in the UK at June 1975.[31]

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[30] See: Lady B. N. Seear, op. cit., pp.24-25

[31] Department of Employment, "British Labour Statistics: Year Book 1975", (London: HMSO, 1977), Table 55, p.130

That was the background against which the growing support for legal action to eliminate sex discrimination in education, training, and employment has been brought about. The Equal Pay Act 1970 and the Sex Discrimination Act 1975 were passed to achieve equality of opportunity generally between men and women. These two Acts are briefly examined in the following paragraphs.

(a) Equal Pay Act 1970:

The equal treatment of men and women in employment had first been examined in this country in 1919, and was reconsidered between 1944 and 1946 by the Royal Commission on Equal Pay.[32] But, there was no progress towards the achievement of equal pay until the Equal Pay Act 1970 was passed. The provisions of the Act came fully into force on December 29, 1975.

Under this Act, no collective agreement may discriminate on the grounds of sex, and where there is a job evaluation scheme, jobs must be evaluated by one set of criteria regardless of the sex of the job holders. Where there is no system of job evaluation, a woman has a right to the same pay and terms and conditions as a man if she performs the same or broadly similar work.[33]

The purpose of the Equal Pay Act 1970 was to establish equality between men and women in pay and terms and conditions of employment, though not in relation to pensions and retirement policies, by the end of 1975. The progress towards equalisation, however, was very slow. Over the three years from May 1971 to May 1974, the average women's rate as a percentage of the average men's rate increased by

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[32] Cmnd. 6936

[33] The Act was severely criticised because of the definition of "like work" and of "work rated as equivalent". (See for example: Roger W. Rideout, "Principles of Labour Law", Second Edition, (London: Sweet and Maxwell, 1976), pp.245-7).

11.5 per cent, so that in May 1974, on average, women were receiving 92 per cent of the men's rate.[34] But the individual industries varied considerably around this point.

However, after this Act was passed, it was felt that equal pay without equal opportunity of employment might lead to a further deterioration in the position of women. Equality of opportunity was indeed seen to be more important than merely equality of pay. The Equal Pay Act 1970 was, therefore, substantially amended by the Sex Discrimination Act 1975.

(b) Sex Discrimination Act 1975:

The Sex Discrimination Act came into force on December 29, 1975. The Act provides a general definition of the discrimination with which it is dealing. It is now unlawful for a person to treat a woman, on the ground of her sex, less favourably than a man is, or would be, treated in the same circumstances (section 1(1)). The essential principle of the Act is, in the employment field, the recognition that jobs should go to the person best able to tackle the work involved, regardless of sex. The Act provides that it is unlawful for a person in relation to employment by him available at an establishment in Great Britain to discriminate against a woman in the arrangements he makes for the purpose of determining who shall be offered that, or in the terms in which he offers her that employment, or by refusing or deliberately omitting to offer her that employment (section 6(1)). Similarly it is unlawful to discriminate within the definition of the Act in the way in which an employer affords a woman access to opportunities for promotion, transfer or training or to any other benefits, facilities or services, or by refusing or deliberately

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[34] *Ibid.*, p.246

omitting to afford her access to them. It is also unlawful to discriminate by dismissing a woman or subjecting her to any other detriment (section 6(2)).

The Equal Opportunities Commission (affectionately known as "Big Sister")[35] is set up (section 53) to ensure effective enforcement of the Sex Discrimination Act 1975 and the Equal Pay Act 1970, and to promote equality of opportunity generally between men and women. The Commission has power to conduct formal investigations, and if satisfied that practices are unlawful it can issue non-discrimination notices requiring that the practices cease (section 67). For certain formal investigations the Commission has power to require any person to furnish information and attend hearings to give evidence.

(2) Racial Discrimination:

The Race Relations Act 1976, which came into force on 22nd November, 1976, is the third Race Relations Act. The first Act was passed in 1965. The 1965 Act was an express recognition of the existence of discrimination in places of public resort, but did not cover the two main areas, in which discrimination against a coloured minority occurred, namely employment and housing. The 1968 Act is the second Race Relations Act and entirely replaces the part of the 1965 Act dealing with discrimination in places of public resort but retains the parts dealing with colour bar clauses in leases and incitement to racial hatred. The 1968 Act makes discrimination unlawful, on the grounds of colour, race, ethnic or national origin, in the provision of goods, services, facilities, in employment

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35 Norman M. Selwyn, "Law of Employment", (London: Butterworths, 1976), p.52

including trade unions and employers' associations, and in transactions in property, including housing. The key to the enforcement of two earlier Acts was in the hands of the Race Relations Board. The 1968 Act also set up the Community Relations Commission to encourage harmonious community relations.[36]

Although there has been evidence of improvement since 1965, there is also evidence that racial discrimination is still practised in the United Kingdom despite the earlier legislation. Various reports, notably those published by Political and Economic Planning (PEP),[37] have shown that there was substantial discrimination in employment on the grounds of colour; that many firms had no coloured employees, and that most of the others placed severe limitations on the types of jobs which coloured workers could do. This point was stressed by Nicholas Deakin, in 1970, when he stated that "the pattern of discrimination against coloured workers in British industry appears to be so widespread and pervasive that an innocent stranger (or frustrated black job applicant) could well believe that it is the result of a centralised directive, enthusiastically implemented, that the employment of coloured labour be restricted to those jobs that white people do not want".[38]

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[36] For more details about both Race Relations Acts of 1965 and 1968, see for example:

- Ian A. Macdonald, "Race Relations and Immigration Law", (London: Butterworths, 1969)

[37] See:

- Political and Economic Planning, "Racial Discrimination", (London: PEP, 1957)
- W. W. Daniel, "Racial Discrimination in England", (Harmondsworth, Middlesex: Penguin Books, 1968)
- David J. Smith, "Racial Disadvantage in Employment", (London: PEP, June 1974)
- David J. Smith, "The Facts of Racial Disadvantage: A National Survey", (London: PEP, February 1976)

[38] Nicholas Deakin, "Colour, Citizenship and British Society", (London: Panther Books, 1970), p.195

This fact can be well demonstrated by the figures of job levels of the immigrant workers in employment in Great Britain and also by the figures of unemployment rates, for example, for those born in the West Indies. The 1971 Census showed the following figures for the immigrant workers in employment in Great Britain:[39]

Total employed in UK	21,851,290
New Commonwealth immigrants:	
West Indians	191,490
Indians	176,375
Pakistanis	76,440
Africans	70,920
Cypriots	34,405
Others	57,680
	607,310

(= 2.8% of total working population)

In addition, there were 67,320 old Commonwealth (Canada, Australia and New Zealand) immigrants.

Analysing those minority groups (men) in employment in Great Britain by the level of their job, the 1976 National Survey of PEP showed the following figures:[40]

Job level	White %	West Indian %	Pakistani/ Bangladeshis %	Indian %	African Asian %
Professional/ management	23 } 40	2 } 8	4 } 8	8 } 20	10 } 30
White collar	17	6	4	12	20
Skilled manual	42	59	33	44	44
Semi-skilled manual	12 } 18	23 } 32	38 } 58	27 } 36	24 } 26
Unskilled manual	6	9	20	9	2
Not classified	1	1	1	-	-

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[39] Office of Population Censuses and Surveys, "Census 1971 Great Britain Advance Analysis", (London: HMSO, 1972), Table 2, pp.103-237, p.103

[40] David J. Smith, "The Facts of Racial Disadvantage", *op. cit.*, Table A26, p.64

This analysis shows that job levels are lower among men from each of the minority groups than among white men. They are lowest among Pakistanis and next lowest among West Indians; Indians come next, and African Asians have the highest job levels of the four groups, but still distinctly lower than for whites.

Furthermore, analysis of the unemployment rates for those born in the West Indies also indicates the racial discrimination in employment policy in Great Britain. The Census taken in April 1971 occurred at a time of rising unemployment, though this was to rise much further in 1972, as is demonstrated by the Department of Employment's figures for the registered unemployed:

	Total unemployed
April 1970	590,635[41]
April 1971	726,942[42]
April 1972	924,505[43]

The Advance Analysis of the 1971 Census showed the following employment break-down for those born in the West Indies:[44]

	Age (years)	In work	Out of work	Out of work %
Great Britain	16-20	13,580	2,770	16.9
	21-25	15,350	1,870	10.9
South-east region	16-20	8,305	1,640	16.5
	21-25	10,640	1,235	10.4

41 Department of Employment, "British Labour Statistics: Year Book 1970", (London: HMSO, 1972), Table 143, p.316

42 Department of Employment, "British Labour Statistics: Year Book 1971", (London: HMSO, 1973), Table 113, p.234

43 Department of Employment, "British Labour Statistics: Year Book 1972", (London: HMSO, 1974), Table 114, p.258

44 "Census 1971 Great Britain Advance Analysis", op. cit., Table 2, p.103 and p.193

These unemployment rates were very much higher than the comparable figures for the population as a whole, even in areas of high employment opportunities:[45]

	Age (years)	% Out of work Total population	% Out of work Born in West Indies
Great Britain	16-20	7.6	16.9
	20-25	5.7	10.9
	All ages	5.4	8.4
South-east region	16-20	6.5	16.5
	21-25	4.7	10.4

The figures also indicated that the higher rate of unemployment for those born in the West Indies was almost constant throughout the country.

There was, therefore, a need for tougher legislation to tackle the problem of racial discrimination. Consequently, the Race Relations Act 1976 was passed to replace the 1965 and 1968 Acts.[46] The new Act extends the meaning of discrimination to include indirect discrimination (section 1(1)(b)) and discrimination by way of victimisation (section 2). The grounds on which discrimination is unlawful are extended to cover discrimination on grounds of nationality (section 3). In addition, the scope of discrimination is extended to cover contract workers (section 7), partnerships (section 10) and various qualifying and training bodies (sections 12-15).

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[45] Ibid., p.103. Also see:

- Mark Bonham Carter, "The Impact of Social Change on Immigrant Workers", in: William K. Purdie and Bernard Taylor, (Eds.), op. cit., pp.59-62

[46] For more details about the Race Relations Act 1976, see for example:

- M.D.A. Freeman, "The Race Relations Act: Will It Work?", New Law Journal, March 31, 1977, pp.304-305

- C.R. Munro, "The New Race Relations Act", The Scots Law Times, March 18, 1977, pp.81-82

A new Commission for Racial Equality was established to replace both the Race Relations Board and Community Relations Commission (section 43). This has been given the power to conduct formal investigation for any purpose connected with the carrying out of its widely-defined duties (section 48). These are to work towards the elimination of discrimination; to promote equality of opportunity, and good relations, between persons of different racial groups generally; and to keep under review the working of the Act (section 43). It has wide power to obtain information (section 50) and make recommendations and reports on formal investigations (section 51). It is able to issue "non-discrimination notices" requiring a person not to commit unlawful discriminatory acts and change his practices or arrangements (section 58). It will be able to apply to designated county courts (and sheriff courts in Scotland) for an interdict to restrain persistent discrimination (section 62).

To sum up, the Race Relations Act 1976 makes it illegal to discriminate, on the grounds of race, colour, ethnic or national origins, in recruitment, in terms and conditions of employment, and in training, promotion and dismissal.

It should be noted, however, that discrimination on the grounds of religion has not been specifically dealt with since 1965. This keeps the socially irresponsible firms within the law so that they can discriminate against a person because he is a Hindu, Sikh or Moslem rather than because he comes from India, Pakistan or Bangladesh. It should also be noted that the Race Relations Act 1976 is an internal law applying to all immigrants who are already in Great Britain. It does not apply to acts of discrimination by British companies outside Great Britain,[47] nor in Northern Ireland.

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[47] See reports that British companies employing blacks in South Africa were paying wages which were even below the official poverty level as established by the South African Government, in: Social Audit, Vol.1,

(3) Employment of Disabled Persons

Under the Disabled Persons (Employment) Act 1944 and Regulations made under it, firms employing more than 20 employees must ensure that 3% of their labour force consists of registered disabled persons.[48] Special jobs, such as car park and lift attendants, are designated as being suitable for disabled persons and they must be employed in preference to able-bodied persons. There are, however, certain exceptions in reference to especial industries, when the employment of disabled persons might be hazardous. It is also possible to apply for a special permit if the full quota of disabled persons cannot be fulfilled because the work is unsuitable or because no suitable disabled candidate has come forward.

These exceptions, however, keep the socially irresponsible firms within the law although they do not seemingly help the disabled people, as those firms recruit non-disabled workers. There were 50,459 firms, at June 1977, required by law to comply with the statutory quota (employing more than twenty employees), but 31,763 of them (63%) do not.[49] Most of these firms (21,703) have been issued with permits allowing them to take on employees who are not disabled.[50]

It is an offence to contravene the Act, but proceedings cannot be brought unless a special advisory committee so decides, after having representatives from the employer. In practice, however, extremely few prosecutions have been brought under the Disabled Persons (Employment) Act 1944, for the problem is one which must be solved by

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[48] See: Department of Employment, "The Quota Scheme for Disabled People", A Consultative Document, (London: Department of Employment, 1973)

[49] Letter from D. Holder, The Employment Service Agency, Department of Employment, to the researcher, 9th February, 1978. (See Appendix 1)

[50] Ibid.

persuasion rather than compulsion. As to the 10,060 firms[51] who are actually breaking the law because they do not comply with the 3% statutory quota and have no permit, there have been only 10 prosecutions under this Act since its inception in 1944, six of which were during the period of twenty years until 1977.[52]

(4) Employment of Rehabilitated Persons:

The Rehabilitation of Offenders Act 1974 seeks to ensure that if a person has made a genuine effort to rehabilitate himself in society after conviction for a serious criminal offence, he may be spared the indignity and embarrassment of subsequently having to disclose his unsavoury past.[53] Provided he does not commit a serious offence within the rehabilitation period, he may, at the end of that time, be regarded as a rehabilitated person, and his conviction will be treated as having been "wiped off the slate".[54] The length of rehabilitation period will depend on the age of the offender at the time of conviction, and the sentence given for the offence. Thus the period will vary from six months in the case when an absolute discharge was granted up to ten years in respect of a sentence of imprisonment of thirty months. A sentence of imprisonment of more than thirty months will never become spent.

Under this Act, if an employee who was a rehabilitated person is dismissed, and the sole ground was the discovery of his past convictions, this would undoubtedly amount to unfair dismissal (section 4 (3) and (6)).

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[51] Ibid.

[52] Ibid.

[53] See: Norman M. Selwyn, op. cit., pp.56-57

[54] Ibid., p.56

However, the Act provides no remedy for a rehabilitated person who may feel that he has been discriminated against in recruitment and promotion. Moreover, the Act does not apply to teachers, doctors, lawyers, accountants, dentists, nurses, chemists and persons employed in the administration of justice. Such persons will not be able to hide their past convictions.

The Rehabilitation of Offenders Act 1974, though it is a step forward in the area of social responsibility, does not ensure an equal opportunity of employment and promotion for the ex-prisoners. For the country to be really maximising its human resources, in the researcher's opnion, it must be making use of the skills and talents of all its workforce. It is not only a matter of social responsibility, but also it is a matter of economics, i.e. valuable talent is being wasted. For instance, the chairman of Birmingham's Lawden Manufacturing Company has stated that "usually the ex-prisoner is very loyal to the company who employs him. He looks upon the company as having given him a chance, and it is nine chances out of ten that he will go straight and give a good day's work".[55]

(5) Health and Safety at Work:

The report of the Robens Committee on Health and Safety at Work, in 1972,[56] stated that the current levels of accidents and disease at work are disturbing. Every year about 1,000 people are killed at their work in this country, about half a million suffer injuries in varying degrees of severity, and 23 million working days are lost annually on account of industrial injury and disease.[57]

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[55] As quoted in: Social Audit, Summer 1973, *op. cit.*, p.13

[56] Robens Committee's Report on "Safety and Health at Work", Cmnd. 5034, (London: HMSO, 1972)

[57] *Ibid.*, para. 10, p.1

In the decade 1961-1970, the fatality rate in factories (annual rate of fatal accidents per 100,000 people employed, averaged over a 10 year period) was 4.5.[58] Investigations of fatal accidents by the former Factory Inspectorate have established that management is in part responsible for three out of four fatalities, and solely responsible in about four cases out of ten. It is also estimated that industry spends around 0.05 per cent of its total annual research and development budget on research into safety at work.[59] This is, indeed, considered a trivial commitment. The Robens Committee's Report has concluded that "too many firms still appear to regard accidents as matters of chance, unpredictable and therefore not susceptible to management. Too few appear to have made serious efforts to assess the total problem, to identify the underlying causes, or to quantify the costs".[60]

The Robens Committee's Report has also indicated that the system of inspection, existing before 1972, was not operating as efficiently as might have been expected. It was discovered that the former Factory Inspectorate sympathised too much with industry, that it did not see its role, whatever the law might say, as shutting down factories, and that it was not willing to prosecute one offender if it could be shown that another, similar, one had not been prosecuted. So the whole approach of the law failed.

This fact is well illustrated in the case of asbestos, which was condemned as an extremely hazardous substance by the Merryweather and Price Report in 1930.[61] At the same time, the International Labour

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[58] 1970 Annual Report of H.M. Chief Inspector of Factories, Cmnd. 4758, (London: HMSO, 1971), p.XIV

[59] *Ibid.*, p.77

[60] 1972, Cmnd. 5034, *op. cit.*, para.47, p.15

[61] See: A.D. Woolf, "Protection of the Environment under Current English Law", in: Timothy O'Riordan and Richard Hey, (Eds), "*Environment Impact Assessment*", (Farnborough, Hants: Saxon House, 1976), pp. 59-68

Office said that, since the asbestos industry was in its infancy, control procedures must be introduced at once before it became a general hazard. So in 1931 regulations were introduced in the United Kingdom which were quite capable, if enforced, of controlling that hazard. But, the fact that there was no attempt to enforce those regulations became distressingly clear when it was found that a factory in Bermondsey was killing off its entire work force and pouring out asbestos dust into a nearby council housing estate. Eventually, when an action for damages was pending and one requirement of those 1931 regulations was insisted upon, the factory was closed down.

A recent report of the Ombudsman, published on March 30, 1976, highlights the dangers of regulatory permissiveness on the part of the former Factory Inspectorate.[62] The report stated that the Factory Inspectorate failed to ensure that workers in an asbestos manufacturing plant at Acre Mill in Yorkshire were adequately protected from the lethal dust. During the period 1949 - 1970 when they visited the site, 40 employees died and over 200 relatives contracted asbestosis.

As a result of the Robens Committee's recommendations on health and safety at work, and according to this bad record, as briefly mentioned above, the Health and Safety at Work etc. Act 1974 was passed.[63] The Act may be regarded as a legal attempt to eliminate the costs of or prevent occurence of plant accidents.

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[62] Ibid., p.68

[63] For more details about this Act, see for example:

- Ewan Mitchell, "The Employee's Guide to the Law on Health, Safety and Welfare at work", (London: Business Books Ltd., 1975)
- Maurice Frankel, "The Social Audit Pollution Handbook: How to Assess Environmental and Workplace Pollution", (London: The Macmillan Press Ltd., 1978), especially pp.12-25

The Act, which came fully into force on 1st April, 1975, is an enabling Act in addition to and mainly, or partially, replacing health and safety at work legislation. The following is a list of the main Acts which are mainly or partially replaced:

- The Explosives Acts 1875 and 1923
- The Alkali etc. Work Regulations Act 1906
- The Public Health (Smoke Abatement) Act 1926
- The Petroleum (Consolidation) Act 1928
- The Agriculture (Poisonous Substances) Act 1952
- The Mines and Quarries Act 1954
- The Agriculture (Safety, Health and Welfare Provisions) Act 1956
- The Factories Act 1961
- The Offices, Shops and Railway Premises Act 1963
- The Mines Management Act 1971
- The Employment Medical Advisory Service Act 1972

The Act extends the scope of health and safety legislation because it applies to all persons at work, employers, self employed and employees, with the exception of domestic servants in private households. The legislation protects not only people at work, but also the health and safety of the general public who may be affected by work activities (section 1(1)).

The purpose of the Act is to provide the legislative framework to promote and encourage high standards of health and safety at work. The aim must be to promote safety awareness and effective safety organisation and performance, by schemes designed to suit the particular industry or organisation; and by the accumulation of influences and pressures, operating at many levels, in a variety of ways, and from a number of directions.

The Act covers the keeping and use of dangerous substances and their unlawful acquisition, possession and use (section 1(1)(c)). Emissions into the air of noxious or offensive substances are also controlled under the Act. It is now the duty of any person having control of prescribed premises, to use the "best practicable means" for preventing the emission into the atmosphere from the premises of noxious or offensive substances and for rendering harmless and inoffensive such substances (section 5(1)).

Another important aspect of the Health and Safety at Work etc. Act 1974 is its creation of the Health and Safety Commission. The Commission, comprising representatives from both sides of industry and other interested bodies (sections 10-11), was set up on 1st October, 1974. In addition, from 1st January, 1975, the staffs of the health and safety inspectorates covering factories, mines and quarries, explosives; nuclear installations; alkali works; and pipe-lines are transferred to the Health and Safety Executive set up by the Commission as its operating arm (sections 10-11). The Executive, together with local authority inspectors and agricultural inspectors, is responsible for enforcing statutory requirements on safety and health. All of these continue to administer the provisions of existing legislation and regulations made under it. They all use the new powers and proecdures provided under the Act, including the power for inspectors to issue Improvement and Prohibition Notices (sections 21-23) in order to require action to remedy a contravention, or to stop a process which causes risk of serious personal injury. Prosecutions are also dealt with in the Act, and any penalties imposed by the Courts are those provided by the Act (sections 23 and 42).

More importantly, section 79 of the Act amends the Companies

Act 1967 requiring companies to include in their directors' reports, information on health and safety. Companies are now required to include information about the arrangements in force in that year for securing the health, safety and welfare at work of employees of the company and its subsidiaries and for protecting other persons against risks to health or safety arising out of or in connection with the activities of those employees. Under this Act, it is the duty of every employer to ensure the provision of such information, instruction, training and supervision as is necessary to ensure, so far as is reasonably practicable, the health, safety and welfare at work of his employees (section 2(2)(c)). It is also the duty of every employer (except for employers who employ less than five employees) to prepare and revise as often as is appropriate a written statement of his general policy with respect to health, safety and welfare at work of all his employees, and the organisation and arrangements for the time being in force for carrying out that policy, and to bring this statement to the notice of all his employees (section 2(3)).

However, the Act does not give any guidance on the contents of this written statement, because the length and content of each written policy statement, like any blueprint, must be specifically prepared to meet the situation of the particular company. Nevertheless, the Health and Safety Commission felt that certain general guidelines might be helpful and it set up those guidelines in 1975.[64] In addition, the Executive and its staff will be prepared to advise individual companies on the compilation of written policy statements.[65]

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[64] See: Health and Safety Commission, "Guidance Notes on Employer's Policy Statements for Health and Safety at Work", Pamphlet No.6, (London: Health and Safety Commission, 1975), pp.6-8

[65] *Ibid*., p.4

But, those guidelines on the contents of written statements, and the other information to be disclosed in the company directors' reports give a bare minimum of information on this very important issue of social responsibility of business firms. There are many obvious ways in which this could be improved, and there is certainly no shortage of suggestions as to how this might happen. For example, the Robens Committee suggested in its report on health and safety at work that companies should be required to include in their directors' reports, information about all accidents, occupational diseases and deaths at work and about measures taken by the company in this regard.[66] In addition, the Social Audit has suggested a requirement for disclosure of all formal warning notices received by the company from the Health and Safety Commission and its Executive, together with a brief report of action taken; and of all prosecutions for safety offences and their outcome.[67] The researcher would suggest, in addition, a requirement for disclosure of full costs of accidents, which include the loss of working hours, damage to plant, spoilage and wastage of material, investigation costs, all compensation paid to the parties involved; and of total research and development expenditure committed to research into the area of securing the health, safety and welfare at work. To these costs should be added the effects of interruption of plant operation, temporary idleness of machinery, the lower efficiency of the inexperienced workers, and the selection and training of new labourers.

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[66] 1972, Cmnd. 5034, op. cit., para.76, p.24

[67] Social Audit, Vol.1, No.2, Autumn 1973, p.12

III. Environmental Pollution

The history of concern about the protection of the environment in the United Kingdom dates back as far as 1863, when the first Alkali Act was passed with the object of controlling the emissions of noxious gases from alkali works.[68] This Act, like several other pieces of pollution control legislation which followed it, was the result of a public outcry against a particular problem whose effects were obvious and acute. The thousands of tons of acid which descended on the surrounding farms and estates were a constant source of grievance to the land-owners who found "whole fields of corn destroyed in a single night".[69] As a result of these repeated complaints, a Select Committee of the House of Lords was set up in 1862 to inquire into the injury resulting from noxious vapours evolved in certain manufacturing processes, and into the law relating thereto. The Committee's report concluded that special legislation to control alkali works was needed, and accordingly the first Alkali Act of 1863 was passed.

In recent years the eruption of environmental crises stirred the public not only to awareness of the hazards of environmental

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[68] Alkali - that is sodium carbonate - was originally manufactured by the now outdated Leblanc process. The process involved treating common salt with sulphuric acid to give sodium sulphate, which was then furnaced with coal and limestone to produce alkali, a substance used in the manufacture of glass, soap and textiles. Large quantities of hydrochloric acid (HCl) were produced during the first stage of the process and released into the atmosphere. The first Alkali Act of 1863 required all alkali works to condense 95% of their HCl emissions; an Inspector and sub-Inspectors were to be appointed, and all alkali works to be registered. (See: Social Audit, A Special Report on the Alkali Inspectorate and the Control of Industrial Air Pollution, Spring 1974.)

[69] *Ibid.*, p.3

pollution, but also to demand that something be done about it. The passing of the Clean Air Act 1956, as a result of the London killer smog of 1952, is direct evidence of the impact of these crises in provoking legislation. Certainly awareness of pollution has been heightened in recent years by the scientific capacity to measure its harmful effects in a way not possible in the past. Thus, the British system of pollution control has been built up through a series of such measures introduced generally to deal with new environmental dangers as they came up and in response to growing scientific awareness of their effects.

Because the effects of pollution are usually experienced first within the confines of particular localities, one of the principles followed by successive Governments in this country has been that the primary responsibility for dealing with pollution problems should rest, as far as is practicable, with authorities operating at a local or regional level, principally local authorities and the water authorities. Thus, central Government lays down the statutory framework for pollution control, but implementation is delegated to a large extent to local level, so that account may be taken of local resources and social priorities, the uses to which surrounding areas are put, and the capacity of the local environment to absorb pollutants. National standards are set only in regard to pollution by particularly difficult or dangerous substances, such as radioactive materials, or for polluting products that have a more than local effect because they are sold or transmitted throughout the country.

Authorities, both central and local, are expected to operate on the philosophy that standards should be "practicable". This means that industries are required to use the "best practicable means"[70] to prevent the environmental pollution. This is to say that equipment is to be used and maintained and processes are to be supervised in such a way as to ensure that any discharge, effluents or wastes are controlled as far as is practicable with regard to local conditions, to the current state of scientific and technical knowledge and medical knowledge of the potential harm or nuisance involved, and to the financial implications.

The justification for this flexible approach is that the standards can be altered to take account of improving technology and the demands of the public for a better environment. But, in recent years, there have been a number of incidents in which the phrase "best practicable means" has been found unsatisfactory.[71] The meaning of the phrase takes into account the effect of control measures on the operation of the process and their cost. The great danger of allowing economic factors to colour technical judgements is that an industry's arguments against incurring cleaning costs appear much more reasonable than the demands of those who have to breathe the air it pollutes. Moreover, the Alkali Inspectorate

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70 This phrase was, originally, introduced, and was to become central to all subsequent anti-pollution legislation, by the second Alkali Act, namely that of 1874. This Act required that alkali works use the "best practicable means" to prevent the escape of noxious or offensive gases. The list of works subject to the "best practicable means" requirement was extended by the new Alkali Acts of 1881 and 1892, until in 1906 the last Alkali Act was passed. The Alkali, etc., Works Regulation Act 1906 is still in force today and the requirement to use the "best practicable means" comes from section 7 of the Act. The Alkali Acts do not explain what it means by "practicable". The Clean Air Act 1956, however, does define "practicable" as "... having regard amongst other things, to local conditions, to the financial implications and to the current state of technical knowledge", and the means to be employed include "the design, installation, maintenance and periods of operation of plant and machinery, and the design, construction and maintenance of buildings and acoustic structures" (section 34). The same meaning is provided in section 72 of the Control of Pollution Act 1974.

71 See: Social Audit, A Special Report, op. cit., pp.8-13. Also see:
- Neil Gunningham, "Pollution, Social Interest and The Law", (London: Martin Robertson, 1974), pp.66-69

found itself judging the profitability of businesses, and considers that the technically possible would be impracticable if the costs were so high that the manufacturing operation were thereby rendered unprofitable or nearly so.

According to Jeremy Bugler, the phrase "best practicable means" reflects "the economic convenience of industry. It is by no means adequate to prevent factories from passing on or externalising in terms of soured amenity or higher laundry bills and lowered health".[72] In this regard, Social Audit has concluded that "whatever safeguards do exist for the public in the "best practicable means" they are always liable to be lost in the Inspectorate's overriding concern for the economic consequences of its requirements".[73] Certainly the British system has lagged behind the United States where the Environmental Protection Agency is required by the Federal Water Pollution Control Act Amendments of 1972 to force all industries to use the "best practicable technology" by 1977, the "best available technology" by 1983, and aim at eliminating additionl water pollution entirely by 1985.[74]

However, the British system of pollution control has worked well, and the various means provided by the law for the protection or improvement of the environment in this country are considerable in their scope. The main categories of the pollution control legislation in Great Britain are:

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72 Jeremy Bugler, "Polluting Britain", (Harmondsworth, Middlesex: Penguin Books, 1972), p.24

73 Social Audit, A Special Report, op. cit., p.13

74 See: Robert B. Haynes, "The Environmental Scene: Just How Bad Is the View?", Business and Society Review/Innovation, No.4, Winter 1972/1973, pp.73-80.

1. Air pollution
2. Water pollution
3. Land (Solid Waste) pollution
4. Noise pollution

This legislation is too voluminous for detailed analysis here,[75] but a summary of major legislation in each category is outlined below.

(1) Air Pollution:

The principal statutes governing air pollution are as follows:

- The Alkali, etc. Works Regulation Act 1906
- The Public Health Act 1936 and the Public Health (Recurring Nuisances) Act 1969
- The Clean Air Acts 1956 and 1968
- The Road Traffic Acts 1972 and 1974
- The Control of Pollution Act 1974 (Part IV)
- The Health and Safety at Work, etc. Act 1974

The Alkali Act 1906, as amended by the Clean Air Acts and the Health and Safety at work, etc. Act 1974, deals with the control of emissions including smoke, grit and dust from specific industrial processes. In general the processes which have been brought under the control of the Alkali and Clean Air Inspectorate[76] are those which give rise to particularly dangerous or offensive emissions or are technically difficult to control. These processes include in addition to alkali works a wide range of activities in the chemical,

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[75] For more details on this legislation, see for example:
- D. A. Bigham, "The Law and Administration Relating to Protection of the Environment", (London: Oyez Publishing, 1973) and the 1975 Supplement to this Book.

[76] As mentioned earlier, the Alkali and Clean Air Inspectorate has been part of the Health and Safety Executive, the operational arm of the Health and Safety Commission, since January 1, 1975.

metal manufacturing, ceramic and allied industries. The Inspectorate requires the best practicable means to be used to prevent or abate emissions. The Inspectorate relies mainly on education and persuasion to insure compliance with their requirements. Moreover, in its earlier days, the Inspectorate actually subsidised industry directly. Now, the Inspectorate has to persuade industry to do its research and spend its own money for controlling pollution.

Emissions from industrial processes not within the scope of the Alkali Act are subject to the control of local authorities under the Public Health and Clean Air Acts. The emission of dark smoke from any trade or industrial premises or from the chimney of any building is in general prohibited, and new furnaces must be capable as far as practicable of smokeless operation. The height of the chimney serving a new furnace has to be approved by the local authority, and approved grit and dust arrestment plant has to be installed. Regulations were made in February 1971 prescribing specific limits to the quantities of grit and dust which may be emitted from certain furnaces. Regulations were also made under section 75 of the Control of Pollution Act 1974, and came into effect in December 1976, specifying maximum sulphur level for gas oil. In addition, local authorities have general powers to control some emissions for health and amenity reasons under the nuisance provisions of the Public Health Act 1936.

Emissions from vehicles are controlled principally by the Motor Vehicles (Construction and Use) Regulations 1973 made under section 40 of the Road Traffic Act 1972. These regulations have for many years required motor vehicles to be so constructed that no available smoke or visible vapour causes injury to other road users or damage to property. There are other regulations dealing with specific pollutants namely, smoke, hydrocarbons and carbon monoxide.

The existing legislation on air pollution control culminated in the two recent important Acts, the Control of Pollution Act 1974 and the Health and Safety at Work, etc. Act 1974. Apart from sections 75 and 76 of the Control of Pollution Act 1974, which relate to motor and oil fuels, the major provisions set out in Part 4 of the Act which deals with "pollution of the atmosphere". This Act extended the powers of local authorities to undertake investigations into air pollution by enabling them to obtain information about emissions to the atmosphere from any premises other than private dwellings. Information obtained by local authority will in general be kept in a register open to public inspection.

The Health and Safety at Work, etc. Act 1974, though it was primarily drawn up to protect employees at work, also offers protection to non-employees and the public from any hazardous condition which may arise at work. Section 5 of the Act, as previously mentioned, requires the person having control of prescribed premises to prevent the emission into the atmosphere of offensive as well as noxious or harmful substances (section 5(1)).

Since the early 1950's the average levels of smoke and sulphur dioxide at ground level have fallen by about 60% and 40% respectively. Particulate emissions from both cement and electricity works have fallen by 80% over the last ten years. There has been no London smog since 1952 and winter sunshine in central London has increased by 70% over the last 20 years.[77] One result of these improvements is that the air pollution control legislation has worked well.

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[77] See: Central Unit of Environmental Pollution, Department of Environment, "<u>Pollution Control in England</u>", (London: Department of Environment, March 1975), p.2

(2) Water Pollution:

(a) Fresh Water:

All discharges to rivers from industry and from sewage works must be authorised by Regional Water Authorities set up under the Water Act 1973. These Regional Water Authorities can refuse consent or lay down conditions as to quality and quantity to which a discharge has to comply. These authorities attach consent conditions to each discharge individually, according to local circumstances such as the use of the river and the extent of dilution. Thus, there are no required national standards for effluent. In practice, however, the effluent is usually limited to 20 part per million (ppm) biochemical oxygen demand (BOD)[78] and 30 ppm suspended solids (SS), as well, as limited as to temperature and toxic substances as necessary. The BOD and SS requirements can be much more stringent (e.g. 10 ppm) when the river is to be used as a source of public water supply.

The results of the River Pollution Survey of 1970,[79] covering 22,313 miles of 4,500 rivers, showed that the condition of the rivers is improving, and that 77.4% of the total length of non-tidal rivers in England and Wales is now free from significant pollution, and more

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[78] The BOD is a measure of the rate at which the oxygen in a sample of water is used up by the natural self-purifying processes that break down organic pollution such as sewage or various chemicals. If the BOD is very high, all the oxygen dissolved in the water will be consumed in this purification process leaving fish and other water life starved of oxygen.

Some authorities may set limits on organic pollution by referring to the chemical oxygen demand (COD), a measure of the amount of oxygen used up if the organic matter is broken down by chemical reagents. Sometimes the chemical used is potassium permanganate and the corresponding limit is set in terms of the permanganate value (PV).

[79] River Pollution Survey of England and Wales 1970, Volume 1, (London: H.M.S.O., December 1971). Also see:

- River Pollution Survey of England and Wales Updated 1972, "River Quality", (London: HMSO, 1972) than one mile in every ten of rivers classified as "poor" or "heavily polluted" in 1972 has been improved. Volume 2 of the survey[80] gives details of the causes of river pollution, and shows that a small but significant improvement has taken place in the quality of effluents discharged to rivers since 1970. This volume also includes a report of a supplementary survey by the Confederation of British Industry which gives the first comprehensive account of the methods of disposal and cost of treatment of industrial effluent, analysed by type of industry.

The improvement of the rivers has been achieved partly through massive capital expenditure and partly through strict control on all discharges to rivers. It was envisaged by water authorities that the expenditure to bring all discharges up to the standards would be about £1,800 million over the five year period, starting with the financial year 1974/75.[81]

The principal Acts concerned with the prevention of fresh water pollution are:

- The Rivers (Prevention of Pollution) Acts 1951 and 1961
- The Rivers (Prevention of Pollution) (Scotland) Acts 1951 and 1965.
- The Clean Rivers (Estuaries and Tidal Waters) Act 1960
- The Water Resources Acts 1963 and 1971
- The Water Acts 1945, 1948 and 1973
- The Public Health (Drainage of Trade Premises) Act 1937 and the Public Health Acts 1936 and 1961 (Part V)
- The Control of Pollution Act 1974 (Part II)

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[80] River Pollution Survey of England and Wales, Volume 2, "Discharges and Forecasts of Improvement", (London: HMSO, October 1972)

[81] Central Unit of Environmantal Pollution, Department of Environment, op. cit., p.4

The Rivers (Prevention of Pollution) Act 1951 and the Rivers (Prevention of Pollution)(Scotland) Act 1951 made it an offence to cause or knowingly permit poisonous, noxious or polluting matter to enter a stream. These Acts also prohibit new or altered discharges of effluent from industry and farms or of sewage effluents into non-tidal rivers without the consent of the appropriate River Authorities. These Acts were strengthened by the second Rivers (Prevention of Pollution) Act 1961 for England and Wales and Rivers (Prevention of Pollution)(Scotland) Act 1965 for Scotland. These new Rivers Acts brought under the control of the river authorities the pre-1951 discharges for which specific consent had not been required previously. However, the Rivers (Prevention of Pollution) Acts 1951 and 1961, and the Rivers (Prevention of Pollution)(Scotland) Acts 1951 and 1965 are extended and being repealed and re-enacted in Part two of the Control of Pollution Act 1974.

The Clean Rivers (Estuaries and Tidal Waters) Act 1960 extended the 1951 Rivers Acts, which originally applied only to non-tidal waters, to all estuaries and tidal rivers.

The Water Resources Act 1963 set up a Water Resources Board and Rivers Authorities. This Act also granted emergency powers to clear accidental pollution of rivers (section 76). The Water Resources Acts 1963 and 1971 provide for the prevention of pollution of underground water by new discharges into any well, pipe or borehole.

The Water Acts 1945 and 1948 provide for statutory undertakers to make byelaws for preventing pollution of their water whether on the surface or underground. The Water Act 1973 replaced the old water Authorities with new all-purpose Water Authorities. The new authorities are responsible within their areas for development, management and control of rivers, aquifers and all uses of water associated with them. Discharges to rivers from industry and from sewage works must be authorised by these Regional Water Authorities.

The Public Health (Drainage of Trade Premises) Act 1937 and the Public Health Acts 1936 and 1961 (Part V) provide the necessary powers for local authorities to carry out their duties and charge for treatment of trade effluent. The local authorities are required by the 1936 Act to discharge their sewage disposal functions without creating a nuisance (section 31).

Existing legislation on water pollution control was considerably strengthened by the Control of Pollution Act 1974. Part two of this Act extends the control to cover almost all discharges to inland and coastal waters and introduces much more tougher penalties for the offence of polluting water. Most of the sections of Part two of the Act are not yet in force but will be implemented when the economic circumstances of the country allow.

(b) Seas and Coasts:

The principal Acts for prevention of pollution of seas and coasts are the Prevention of Oil Pollution Act 1971 and Dumping at Sea Acts 1974 and 1976.[82]

Oil pollution of the sea is already covered by several international conventions. The Prevention of Oil Pollution Act 1971 enacts the 1969 amendments to the 1954 Convention for the United

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[82] Furthermore, the Royal Commission on Environmental Pollution made an extensive study of pollution in some British estuaries and coastal waters. (Third Report, Cmnd.5054, London: HMSO, 1972). Many of the recommendations contained in the Commission's Report have been included in Part II of the Control of Pollution Act 1974.

Kingdom. It also improves the law in other respects, and increases the maximum summary penalty for illegal discharges of oil to £50,000. Local authorities are responsible for clearing any oil which comes ashore and all coastal authorities have emergency organisations to deal quickly with the problem.

The Dumping at Sea Act 1974 is designed to enable the government of the United Kingdom to control the serious problem of the dumping of industrial waste (including radio-active material, chemicals and solid scrap) by vessels employed for that specific purpose, as respects dumping within British territorial waters, but also in regard to restricting or prohibiting the loading of any ships within the UK, or the loading of British ships in any part of the world with material so intended for dumping at sea.

Discharges and dumping within the three mile limit are regulated by the Sea Fisheries Committee, and dumping outside the limit by the Ministry of Agriculture, Fisheries and Food (MAFF) under a voluntary scheme. The Dumping at Sea Act 1976 makes this scheme statutory.

(3) Land (Solid Waste) Pollution:

Under the Civic Amenities Act 1967, collection and disposal of solid wastes is primarily a function of the local authorities at the expense of the local ratepayer (section 23). The Litter Act 1958 and the Dangerous Litter Act 1971 impose penalties up to £100. Further there are two major Acts:

- The Deposit of Poisonous Waste Act 1972, and
- The Control of Pollution Act 1974 (Part 1).

The Deposit of Poisonous Waste Act 1972 has two main features. It provides for a notification procedure under which those concerned are required to give local authorities and water authorities information about the nature and quantities of certain wastes arising or being deposited in their areas. It also makes it an offence punishable by heavy penalties to deposit on land any poisonous, noxious or polluting waste in circumstances in which it can cause danger to persons or animals or pollute water supplies. This latter provision is concolidated in Part I of the Control of Pollution Act 1974.

The Control of Pollution Act 1974, which came into operation on 1st January 1978, places a duty on the new waste disposal authorities (the counties in England, and the districts in Scotland and Wales) to ensure that satisfactory arrangements are made for the disposal of wastes in their areas and to prepare waste disposal plans. Under this Act, a disposal licensing procedure is now applied to waste disposal facilities to ensure greater operational control. It is an offence to deposit or store, controlled waste on land without a licence. The Act also provides for more intensive controls to be developed over those wastes which are considered to be dangerous and to require special care and consideration in their disposal. There are new offences and penalties for the contravention of various of the provisions. Once Part I of the Act is fully implemented the Deposit of Poisonous Waste Act 1972 will be repealed.

The Control of Pollution Act 1974 also lays on waste disposal authorities the duty of considering, in the preparation of their waste disposal plans, the potential in their areas for reclamation and recycling. The Act also gives them the enabling powers to carry out schemes for reclaiming and re-using waste materials.

Strained economic circumstances of the country have so far prevented the implementation of the sections of the preparation of waste disposal surveys and plans by local authorities. The Government has been conscious for some time of the need to promote more reclamation and recycling in this country, and has set up a Waste Management Advisory Council, to keep under review the development of waste management policies, with special regard to the reclamation and re-use of waste materials, to advise on research needed to overcome the many problems involved, and make policy recommendations.

(4) Noise Pollution:

Noise is incresingly being recognised as a serious environmental pollutant as well as, in some cases, a hazard to health and safety. Noise is measured in decibels, the decibel being a logarithmic measure of sound, and with each increase of ten on the decibel scale the noise level is ten times as great as at the lower level. Continuous exposure to a noise level of around ninety decibels can cause hearing loss.

Although most people are unlikely to be subject to such high noise levels as can, over a period, cause loss or impairment of hearing, nearly everyone has had the experience of a level of noise which can produce tension and irritation and can interfere with the normal enjoyment of life; and there are many intermediate situations in which noise may be at least a contributory factor towards physical danger, may produce psychological stress, or may adversely influence the quality of the environment.

The very great increase in road and air traffic and the development of advnaced industrial and technological progresses, many of which involve a high level of noise, have led to the acceptance by central and local authorities in Britain of responsibility for ensuring that measures of control should be available and enforcable, and that these should extend to all aspects of the environment which may be affected by noise.

In Great Britain it has always been possible for noise to be the subject of a civil action for nuisance at Common Law. However, the cost and particularly the delay involved in a civil action has prompted the passing of the Noise Abatement Act 1960 under which any noise or vibration which is a nuisance at common law becomes a statutory nuisance and so subject to the provision of the relevant public health enactments. The Noise Abatement Act 1960 is principally designed to deal with noise from fixed sources, e.g. industrial and domestic premises. Under this Act local authorities have powers to deal with noise nuisance. The Act is now replaced by Part III of the Control of Pollution Act 1974 which is designed to achieve a far more comprehensive system of noise control.

The Control of Pollution Act 1974 improved and expanded the powers available to local authorities. In particular, it gives them better powers of control over noise from construction sites and enables them to designate noise abatement zones in which they are able to control the noise emission levels from premises in the zone.[83]

The Noise Advisory Council was established in 1970 to keep under review the progress made generally in preventing and abating the

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83 The part of the Control of Pollution Act 1974 relating to the designation of noise abatement zones came into force in England and Wales on 1st January 1976. It is not at present (1st February, 1978), in force in Scotland, where the Noise Abatement Act 1960 continues to apply.

generation of noise, to make recommendations to Ministers with responsibility in this field, and to advise on such matters as they may refer to the Council. The recommendation of the report "Neighbourhood Noise"[84] by one of the Council's working groups, formed the basis of the noise clauses of the Control of Pollution Act 1974.

By further legislation, the Public Health (Recurring Nuisance) Act 1969, the powers of local authorities were extended to enable them to deal with statutory noise nuisance which had abated but were likely to recur.

Control of noise from motor vehicles is now effected by regulations made under successive Road Traffic Acts, the most recent in 1974; while the Heavy Commercial Vehicles (Control and Regulations) Act 1973 empowers local authorities to regulate the routing of heavy vehicles. In addition, provisions for the control of aircraft noise are contained in the Civil Aviation Act 1971, which covers aerodromes in Britain designated under the Act. Moreover, environmental noise control is among matters covered in the Land Compensation Act 1973 and the Land Compensation (Scotland) Act 1973, which provide among other things, for compensation to be paid in certain circumstances to people whose lives are adversely affected by noise.

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[84] Noise Advisory Council's Working Group, 'Neighbourhood Noise', (London: H.M.S.O., October 1971)

IV. Consumer Affairs

The growth of the consumer movement, or consumerism, and the pressure it has brought to bear through public opinion is the major catalyst for business to establish voluntary codes of practice and for Government to encourage fair trading with the particular aim of helping consumers and safeguarding their rights.

Consumerism has been defined as "a social movement seeking to augment the rights and powers of buyers in relation to sellers".[85] Consumers are demanding four enforceable rights: the right to have safe and dependable products; the right to make intelligent choices among products; the right to be heard; and the right to be fully and adequately informed.[86] Assuming that the better information links have the twofold function of providing consumers with the honest and adequate information they need and channelling back to producers and suppliers any dissatisfaction among customers, implicit in the first three rights is the fourth. The consumer will, if fully informed, act to protect his own safety, make wise and economic decisions, and voice his own views to suppliers and producers. Consequently, understanding consumer needs and producing goods and services to satisfy these needs do not complete business's responsibility to consumers. Business has an additional responsibility to provide sufficient and truthful information so that consumers can make sensible buying decisions. Hence, each

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85 Philip Kotler, "What Consumerism Means for Marketers", Harvard Business Review, May-June 1972, pp.48-57, p.49

86 See: Charles Medawar, "The Social Audit Consumer Handbook: A Guide to the Social Responsibilities of Business to the Consumer", (London: The Macmillan Press, Ltd., 1978), p.11

statute cited in the following paragraphs specifically provides for the disclosure of information, and each governmental or independent organisation established to protect the consumer devotes much of its efforts to forcing the disclosure of fuller and more reliable information.

The Information Division of the Department of Prices and Consumer Protection publishes a monthly "Consumer Information Bulletin", which is circulated to news media and consumer organisations to supplement the Government's programme of leaflets and advertising. Also, a considerable range of information on products and general consumer affairs is provided by the independent Consumers' Association in Great Britain. The Association has over 700,000 members and an annual income, which comes entirely from its members, of nearly £3 million.[87] It tests products and investigates services and publishes the result in its monthly magazine "Which?" or its satellite publications. The satellites, "Motoring Which?", "Money Which?", "Holiday Which?" and "Handyman Which?" are published quarterly.

A number of other voluntary organisations engaged in this work at local level are the Citizens' Advice Bureaux. These, together with the local authority centres, give information and advice on most aspects of consumer affairs, ranging from the explanation of legislation and the description of services available to assist consumers, to the answering of inquiries and complaints.

In addition to those governmental and independent organisations, the United Kingdom has to its credit, in 1975, the only Consumer Minister in the Common Market. It also has to its credit four

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87 The Central Office of Information, Reference Division, "Fair Trading and Consumer Protection in Britain", (London: The Central Office of Information, July 1976), pp.30-41

pieces of consumer legislation more advanced than any in Europe.[88] These are the Fair Trading Act 1973, the Trade Descriptions Acts 1968 and 1972, the Consumer Credit Act 1974, and the Consumer Protection Acts 1961 and 1971. These Acts, in their broadest sense, are designed to protect the consumer against deceptive and other unfair trading practices and to provide adequate rights and means of redress. They are intended to cover the duties and rights of business and consumers through all the complexities of technological innovations, new forms of business transactions and services and new techniques of marketing and sales promotions. These Acts are examined briefly in the following paragraphs.

(1) Fair Trading Act 1973

The Fair Trading Act 1973[89] is a considerable advance in the development of legislation to protect the economic interests of the consumers against the malpractices of business. To help achieve its aims, the Act established the post of Director General of Fair Trading and set up an independent, advisory body, the Consumer Protection Advisory Committee (CPAC), (sections 1-3).

The consumer trade practices which the Director General can refer to the Consumer Protection Advisory Committee are defined as those which relate to the terms or conditions (including price) subject to which goods or services are supplied; the way in which consumers are informed of the terms or conditions; advertising,

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[88] See: Eirlys Roberts, "The Impact of Social Change on Consumers", in: William K. Purdie and Bernard Taylor, (Eds.), op. cit., pp.28-32

[89] For more details on this Act, see for example:

- James P. Gunningham, "The Fair Trading Act 1973: Consumer Protection and Competition Law", (London: Sweet and Maxwell, 1974)
- Bruce Reynolds and Alan Pardoe, "The Fair Trading Act 1973", (London: Butterworths, 1975)

labelling or marking of goods and other forms of promotion of goods or services; methods of salesmanship; packing of goods; and methods of demanding or securing payment for goods or services supplied (sections 14-17).

The malpractices which the Director General seeks to regulate are defined in the Act as practices which mislead or confuse consumers over, among other things, the nature, quality or quantity of goods or services to be supplied; those which withhold from them adequate information; put pressure on them to enter a transaction; or lead to unfair contracts (sections 14-17).

Under this Act, the Director General has the power to make available to consumers, information and advice affecting their economic interests. The Director General may also institute court proceedings against persons who persistently maintain in their business activities a course of conduct detrimental and unfair to consumers' interests. Another aspect is the encouraging of trade associations to prepare and disseminate codes of practice which will safeguard and promote the interests of consumers (sections 34-37). Since the Office of Fair Trading has been established, a number of codes have been published in collaboration between the Office and trade associations. More recently, codes have been introduced relating to the car industry, including car repair and servicing work, laundries and dry cleaners, and the footwear retailing industry.

(2) <u>Trade Descriptions Acts 1968 and 1972</u>

The Trade Descriptions Acts 1968 and 1972 replaced the Merchandise Marks Acts 1887-1953. The principal Act of 1968 repeated earlier provisions outlawing the use of false or misleading trade descriptions, extending their scope still wider, and also introduced new power to prohibit false statements about services, accommodation or facilities provided in the course of a business.

Trade descriptions, as defined in the Act, include indications of quantity or other measurements; the method of manufacture, processing or reconditioning; composition; fitness for a particular purpose; and various physical characteristics such as strength, performance, behaviour, and accuracy. They also include indications of testing and the results; approval; place or date of manufacture; the manufacturer; and any other history of the goods, including previous ownership (section 2). Oral or written trade descriptions including advertisements are covered by the Act.

The Trade Descriptions Act 1972 requires that goods manufactured or produced outside Great Britain and carrying a British name or mark should be accompanied by a clear indication of their origin. The marking requirements are enforced by local authorities.

(3) Consumer Credit Act 1974

The Consumer Credit Act 1974[90] is a radical reform of the law on consumer credit. It replaced earlier legislation, which gave varying measures of protection depending on the source of credit. The 1974 Act is designed to be sufficiently flexible to cover any changes that may occur and to give comprehensive and equal protection to the consumer, whatever the form of credit with which he is concerned. The Act meets three primary criteria for consumer credit legislation: the redress of bargaining inequality, the control of business malpractices, and the regulation of the remedies for default.

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[90] For more details on this Act, see for example:

- A.G. Guest and M.G. Lloyd, "The Consumer Credit Act 1974", (London: Sweet and Maxwell, 1975).

The Act is mainly concerned with credit and hire transactions known as regulated agreements, where the amount of credit provided for an individual does not exceed £5,000. The Act provides hirers of goods with similar protection to credit-purchasers of goods recognising that hire is often an alternative to credit. This covers hire purchase and also regulated agreements for the hire of goods, which are those capable of lasting for more than three months and requiring the individual to make payments not exceeding £5,000.

One of the most important concepts of the Consumer Credit Act 1974 is truth in lending. The aim is that the consumer should be given sufficient information about the credit offered and its true cost so that he can decide what facilities are best for him.

The licensing system administered by the Director General of Fair Trading is one of the important methods of enforcing the Act. Every business offering credit or hire will require a licence. In granting licences, the Director General must be satisfied that the applicant is fit to carry on a credit business. Local authority trading standards officers will be able to submit information about the applicant's previous conduct.

(4) Consumer Protection Acts 1961 and 1971

A major area of consumer protection is concerned with safe-guarding consumers from products that are hazardous or likely to injure health. The main aims of consumer safety policy are to ensure that goods available to the public present no harm; that people are warned about hazards they may find in products and advised on how to avoid them; and that unsafe goods can be with-drawn from sale or modified quickly.

In a consultative document entitled "Consumer Safety", Cmnd. 6398, (1976), the Department of Prices and Consumer Protection estimated that 7,000 people in Great Britain die each year from accidents in the home (over one-tenth in fires). A further 100,000 receive hospital in-patient treatment and 650,000 out-patient treatment for accident injuries. On top of this some 500,000 attend their general practitioner for treatment.[91] This represents a very high social cost in terms of medical treatment, damage to property and wasted working hours. This is not to say of course that all these accidents result from defective products but such evidence as is available suggests they are a significant contributory cause. Causation is not necessarily through direct defects but such things as inadequate or misleading information as to use or failure to warn about common misuse.

The principal legislation dealing with consumer safety is the Consumer Protection Act 1961. The Act empowers the Secretary of State (now the Secretary of State for Prices and Consumer Protection) to make regulations prescribing safety requirements for any class of consumer goods where such action is considered to be appropriate to prevent or reduce risk of death or personal injury.

The Consumer Protection Act 1971 amended the 1961 Act so that if it is considered that the commission of an offence by any person is due primarily to the act or default on the part of some other person, the latter can be prosecuted for the offence in question. The Act enables proceedings to be taken against the manufacturer or importer of goods, for example, as well as, or instead of, the

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[91] See: H.A. Johnson, "Consumer Product Safety - The Need for Reform", New Law Journal, September 1, 1977, pp.852-854, 852

retailer. In some cases, regulations give statutory backing to technical specifications known as standards; the most widely recognised standards in Great Britain are those produced under the auspices of the British Standards Institution. The labelling of goods in order to provide information about them is also compulsory.

However, relatively few regulations have been made under the enabling powers of the Consumer Protection Acts because safety measures are, to a large extent, being achieved through voluntary compliance by industry with British Standards and with Government safety recommendations. The recent Electrical Equipment (Safety) Regulations 1975, is an example of regulations made under the 1961 Act. These regulations apply to all electrical equipments designed or suitable for domestic use offered for sale in Great Britain in the course of business, with the exception of electrical blankets, which are covered by the Electric Blankets (Safety) Regulations 1971, and which is another example of regulations made under the 1961 Act.

In regard to the consumer safety, emphasis should be laid on the vital importance of providing consumers with accurate and complete information so that they can protect their own health and safety. For the most part this is achieved through advertising and labelling. At this point, the researcher would suggest that, just as companies are required by the Health and Safety at Work, etc. Act 1974 to disclose information on health, safety and welfare at work of employees and the general public who may be affected by work activities, business firms should be required by the law to disclose information about their product safety. A firm has a responsibility to eliminate any possibility of harm to the environment and to the individual user of the product. A requirement of disclosure of total research and development expenditure spent on product safety researches is an example of the relevant additional information needed in this regard. A firm also has the responsibility to respond to consumer complaints and to adhere to illustrated or implied warranties. In this respect, the 1973 White Paper suggested that business companies should be compelled to report on the number of consumer complaints received and how they were dealt with.[92]

(5) Other Acts

There are many other relevant Acts, apart from those discussed above, in the area of consumer affairs. These Acts include:[93]

- Sale of Goods Act 1893, as amended by the Supply of Goods (Implied Terms) Act 1973
- The Misrepresentation Act 1967
- The Weights and Measures Act 1963
- Unsolicited Goods and Services Act 1971
- Food and Drugs Act 1955
- Medicines Act 1968
- Independent Broadcasting Act 1973
- Prices Act 1974
- The Monopolies and Mergers Act 1965
- Monopolies and Restrictive Practices (Inquiry and Control) Act 1948
- The Restrictive Trade Practices Acts 1965 and 1968
- The resale Prices Act 1964
- The Insurance Companies Act 1958
- The Rag, Flock and Other Filling Materials Act 1951
- The Seeds Act 1920

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[92] 1973, White Paper, Cmnd. 5391, op. cit., para.12, p.7

[93] For a brief discussion on these Acts, see for example:

- Charles Medawar, "The Social Audit Consumer Handbook", op. cit. pp.17-19

Furthermore, there are over 60 statutes, for example, regulating in one way or another, the content of advertising.

Summary and Conclusions

The legislation and standards discussed in this chapter are not the only examples of corporate socially responsible activities. However, they could all be cited as examples of situations which are commonly recognised as serious and unsolvable without governmental intervention. Businesses will not rectify those situations on their own because of the lack of economic incentive.

Morally, business organisations should prevent their quest for economic profit from endangering their employees, customers or the general public. Since too often morality is sacrificed in favour of material profit, the government has stepped in to make businesses more socially responsible.

This chapter has reviewed the legal requirements governing the business's behaviour in some of the main areas of corporate social responsibility. The first section of this chapter began with a discussion of existing company law and its inability to cope with the growing public concern about the social responsibilities of British companies. Then, the serious attempts at company law reform by successive governments have been presented. It has been concluded that the existing company law is inadequate to cope with the growing public concern about corporate social responsibility, and that a new consolidating Companies Act including provisions on social problems, is very much required.

In the second section, the major issues of social concern in the area of corporate employment practices and the related legislation have been examined. These issues are sex discrimination, racial discrimination, employment of disabled persons, employment of rehabilitated persons, and health and safety at work.

The third section of this chapter has reviewed the environmental pollution control legislation in Great Britain. The principal statutes and governmental regulations controlling air pollution, water pollution, land (solid waste) pollution and noise pollution have been discussed.

The fourth and last section of this chapter has briefly examined the main legislation protecting consumers against deceptive and other unfair trading practices and safeguarding consumer health and safety.

Noted in this chapter is the vital importance of disclosure of information about the socially responsible activities of a business enterprise so that the management and the general public can measure corporate social performance as well as corporate financial performance. The following chapters will therefore be devoted to accounting and reporting of corporate social responsibility performance.

CHAPTER IV

ACCOUNTING FOR CORPORATE SOCIAL RESPONSIBILITY PERFORMANCE : A REVIEW OF THE CURRENT LITERATURE

The preceding chapters discussed the areas of corporate social responsibility activity to be covered in accounting for corporate social responsibility performance. The rationales for undertaking corporate socially responsible activities were also discussed. Furthermore, the existing laws and governmental regulations requiring business companies to be actively involved in some areas of corporate social responsibility performance were examined.

In this chapter, the current state of the literature of accounting for corporate social responsibility performance will be reviewed. The chapter will be divided into three sections. Section I, the need for corporate social responsibility performance accounting, will present the reasons for which accountants should be concerned with measuring and reporting information on corporate social performance. The concept of accounting for corporate social responsibility performance will be discussed in section II. The different ideas about what the concept is and the various titles which have been used to describe this field will be reviewed in this section in order to indicate the scope of the concept and the title which the researcher believes should be used. Section III, approaches for measuring and reporting corporate social responsibility performance, will examine the different approaches which have been suggested for measuring and reporting the social performance of a business company so that the appropriate approach to be employed in this study can be determined.

1. The Need for Corporate Social Responsibility Performance Accounting

Recognition of the wider responsibilities of business companies has led to suggestions that the content of company reports and accounts should be extended to reflect the wider accountability of the directors of companies, and cover the interests of others besides shareholders, to whom the reports are at present addressed.[1]

There has been a number of recent major research projects dealing with the objectives of financial reports. One of these is the 1973 Report of the Study Group of the American Institute of Certified Public Accountants on the Objectives of Financial Statements.[2] This Report developed twelve separate objectives, one of which (objective No. 12) dealt with corporate social responsibility accounting. The Report stated:

> "An objective of financial statements is to report on those activities of the enterprise affecting society which can be determined and described or measured and which are important to the role of the enterprise in its social environment."[3]

Unfortunately, this objective was given a low priority and was viewed as peripheral to the "real" objectives. The objective and its discussion in the report were vague about users' identities and needs, purposes for the information, and implementation. In

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1 See: Secretary of State for Trade, "The Future of Company Reports", A Consultative Document, Cmnd. 6888, (London: Her Majesty's Stationery Office, July 1977.)
Also see: Patricia Skitmore, "Legal Aspects of Disclosure", Management Accounting (U.K.), February 1978, pp.70-71.

2 American Institute of Certified Public Accountants, the Study Group on the Objectives of Financial Statements, "Objectives of Financial Statements", (New York: American Institute of Certified Public Accountants, October 1973).

3 Ibid., p.55

fact, the discussion mostly emphasised problems. Thus, the subject needs more study and attention than that given to the financial reporting.

In Great Britain, The Corporate Report, a discussion paper published for comment by the Accounting Standards Steering Committee in July 1975,[4] adopts a sympathetic but cautious approach to accounting for, and reporting on, corporate social responsibility performance. The authors of the Report believe that "social accounting (the reporting of these costs and benefits, which may or may not be quantifiable in money terms, arising from economic activities and substantially borne or received by the community at large or particular groups not holding a direct relationship with the reporting entity) will be an area of growing concern to the accounting profession and one in which it has an opportunity to help develop practical reporting techniques".[5] They realise that anti-pollution, safety and health and other socially beneficial requirements impose new costs, formerly borne by society generally, on individual companies.[6] They also realise that "[L]egislation of this type seems likely to increase in the future".[7] The Corporate Report then states:

> "[T]here is a good reason therefore for requesting such compulsory expenditure to be reported. Equally good arguments can be put forward for disclosing expenditure of this nature undertaken voluntarily."[8]

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[4] Accounting Standards Steering Committee, "The Corporate Report", (London: Accounting Standards Steering Committee, July 1975.)

[5] Ibid., para. 6.46, pp.57-58

[6] Ibid., paras. 6.43-6.44, p.57

[7] Ibid., para. 6.43, p.57

[8] Ibid., para. 6.44, p.57

As corporate social responsibility accounting is, however, in an experimental phase, with debate about the underlying concepts and with details of the necessary measurement techniques not yet agreed, the Corporate Report recommends that "further study be conducted into methods of social accounting but that no obligation to report on social and environmental issues be imposed until acceptable, objective and verifiable measurement techniques have been developed which will reveal an unbiased view of both the positive and negative impact of economic activities".[9]

This latter recommendation of the Corporate Report, that it should not be obligatory to report on corporate social performance until acceptable, objective and verifiable measurement methods have been developed, may well encourage some companies and some accountants to delay effective and necessary voluntary efforts to develop their own social measurement and reporting systems. The promotion of these voluntary efforts is a useful step towards company social reporting, with the possibility of legislation being kept in reserve if such efforts do not work. Besides, the Corporate Report recognises that among the user groups identified as having an entitlement to information and whose information needs should be met by corporate reports, are the employee groups, the government and the public including taxpayers, ratepayers, consumers and other community and special interest groups such as political parties, consumer and environmental protection societies and regional pressure groups.[10] Additionally, to help the users of corporate reports in assessing the performance of a reporting

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[9] Ibid., para. 6.47, p.58

[10] Ibid., para. 1.9, p.17

entity in achieving objectives established previously by its management, the Report suggests that corporate reports should include a statement of corporate objectives, including a statement of general policy and information concerning strategic targets in policy areas, among which are employment, consumer issues, environmental matters, and other relevant social issues.[11]

Once it is acknowledged that some user groups attribute objectives other than economic ones to companies, it is then of interest to disclose, in the corporate report, information on progress towards these objectives. It is inevitable, however, that accountants will be confronted with the problem of accounting and reporting on corporate social responsibility performance. It is better therefore for companies and accountants to move now, at a voluntary stage, towards experimentation and the development of methods for measuring and reporting information on social performance of business organisations. Indeed, as Professor Neil Churchill of Harvard University states: "the history of financial measurement has not been smooth, nor is it ever ended. There is no reason for social measurement to fare any better. A start has been made and the accounting discipline can contribute to its continuation".[12]

In addition to this, there are several reasons why accountants should be concerned with measuring and reporting information on

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[11] Ibid., para. 6.42, p.57

[12] Neil C. Churchill, "The Accountant's Role in Social Responsibility", in: Williard E. Stone (Ed.), "The Accountant in a Changing Business Environment", (Gainesville: University of Florida Press, 1973), pp.14-27, p.21

corporate social responsibility performance.

Firstly, much of the social performance information is of a financial nature and affects significantly assets, costs, expenses, revenues, income and liabilities. The information function of the accountancy profession is diminished because the traditional financial statements do not disclose this information. Accountants should measure and disclose information on corporate social responsibility performance if the financial position and performance of business companies are to be properly and adequately reported to interested parties.

Secondly, a fair comparison between business companies based on financial statements cannot be achieved. The problem of comparability in financial reporting practices has received considerable attention from the accountancy profession over the years. Now the problem of comparability arises again in connection with costs of corporate social performance. Some companies within an industry are making substantial financial commitments for environmental pollution control, job safety, product safety, employee relations and community relations, while others are ignoring these social problems. As a result, other things being equal, the more socially irresponsible companies will appear, in the short run, to be the more profitable and successful and they are likely to receive additional resources from the investing public.

If accountants do not become directly and actively involved in reporting social information, they may actually encourage the socially irresponsible companies to endanger the physical environment, the employees, the consumer, and the community at large.

Thirdly, the 1973 Report of the American Accounting Association's Committee on Environmental Effects of Organisational Behaviour stated:

> "[I]t is probable that in the not-too-distant-future reporting of environmental information will be part of generally accepted accounting and auditing standards."[13]

The traditional viewpoint that costs of conserving and improving the environment are social public costs, and hence borne by society generally, is becoming obsolete. Society and business are moving rapidly towards general acceptance of the philosophy that these costs are private production costs for the company concerned. Costs imposed on individual firms to meet legal requirements in the area of environmental pollution control are significant and advance this acceptance. In the United States, the importance of environmental information is increasing, and estimates of expenditure for environmental pollution control "range up to 4% of sales and up to 10% of capital investments for some individual polluters".[14]

In the United Kingdom, for whether by government or local authority decree, or a strong sense of corporate social responsibility, the amount of money some major British companies spend on protecting the environment is soaring. A report by Roy Assersohn in the Daily Express, 2nd May, 1978, stated that most major companies estimate that protecting the environment can add 10% to 12%

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13 The American Accounting Association, the Committee on Environmental Effects of Organisation Behaviour, "Report of Committee on Environmental Effects of Organisational Behaviour", The Accounting Review, Supplement to Vol. XLVIII, 1973, pp.72-119, p.9.

14 Ibid., p.79

of the cost of any major new project.[15]

Fourthly, information on corporate social performance is relevant if investors and other parties act upon this information. Investors, especially institutional investors, are beginning to include in their investment criteria the social performance of portfolio companies. Some institutional investors such as charitable and educational foundations add social criteria to their investment decision-making on the basis of moral or ethical predilection. Many other institutional investors such as insurance companies, banks, mutual funds and pension funds now argue that the company which is not responsive to corporate social responsibility will be a more risky investment in the long run.[16] In early 1973, the Ford Foundation (U.S.A.) conducted a study regarding the practice of institutional stockholder responsibility.[17] The survey included 200 institutions, 60 percent of which responded to the study. These respondents indicated that, among other things, they

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15 See: Roy Assersohn, "Breathing Easy and No Crocodile Tears", Daily Express, 2nd May, 1978, p.31. Also see Examples extracted from major British companies which are presented in Chapter VII of this thesis.

16 See: Barry H. Spicer, "Investors, Corporate Social Performance and Information Disclosure: An Empirical Study", The Accounting Review, January 1978, pp.94-111.

Also see:

- Edward H. Bowman, "Corporate Social Responsibility and the Investor", Journal of Contemporary Business, Winter 1973, pp.21-43

- Burton G. Malkiel and Richard E. Quandt, "Moral Issues in Investment Policy", Harvard Business Review, March-April 1971, pp.37-47

- Joseph H. Bragdon, Jr. and John A.T. Marlin, "Is Pollution Profitable?", Risk Management, April 1972, pp. 9-18

17 Bevis Longstreth and H. David Rosenbloom, "Corporate Social Responsibility and the Institutional Investors", A Report to the Ford Foundation, (New York: Praeger Publishers, 1973).

have recently reviewed, or are currently reviewing, the social aspects of their investment policy and that they take social considerations into account in the selection and retention of investment.[18]

In Great Britain too, according to John Hargreaves and Jan Dauman, the Church, trade unions, and local authorities, all with significant portfolio, are now trying to establish non-financial criteria and some have pulled funds out of companies operating in South Africa.[19] Hargreaves and Dauman have also stated that many insurance companies are also now carrying out a thorough re-examination of their priorities.[20] Without some form of social reporting, investment decisions incorporating the criterion of social involvement will be most difficult.

Fifthly, social investment is affected by financial constraints. Improved social performance therefore, requires improved efficiency because companies, irrespective of how big they are, have limited financial resources. To improve social performance efficiency, some objective measure of expenditures laid out for social purposes and their results would seem to be necessary. Such measurements will enable a company to make rational decisions regarding the amount and direction of such expenditures; how much it should spent on pollution control, how much on employee relations, how

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[18] Ibid., p. VIII

[19] John Hargreaves and Jan Dauman, "Business Survival and Social Change: A Practical Guide to Responsibilities and Partnership", (London: Associated Business Programmes Ltd., 1975), p.174

[20] Ibid.

much on community relations, and how much on any other social actions. Moreover, attention must be focussed on gauging, or having adequate internal control over, social performance costs, since they may be considered unproductive or unprofitable to the company concerned. Since this goes to the heart of reporting responsibility, accountants should consider the measurement and reporting of a company's social performance costs.

Sixthly, when business is accused of excessive preoccupation with economic results at the expense of the rest of society, better information about corporate social performance is desirable. Companies have been increasingly attacked for their actual or alleged socially irresponsible conduct, and rebuttal would be more effective if it could be based on hard facts, especially those costs which can be adequately quantified.

Moreover, if companies and accountants do not disclose their own social performance information, this information will be reported for them by external self-appointed public interest groups. This is supported in Great Britain by the appearance of Social Audit Limited which is reporting publicly information about the social performance of British companies in both the private and the public sectors. Its 'Social Audit' magazine has already published critical reports on the performance of some major British companies.[21]

The danger of this approach is that the information, disclosed externally by a self-appointed public interest group, is usually

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[21] See: '<u>Social Audit</u>' magazine published quarterly by Social Audit Limited, Vol.1, No.1, Summer 1973, and after.

incomplete, inaccurate and biased. This kind of information, often reported without the agreement or the co-operation of the company itself, could damage the public image of the company reported on. The external public interest group usually selects a company initially because it is considered socially irresponsible in some way, and thus the resulting social report frequently sustains the accusation. So it is better for companies and accountants to publish their own social performance information. This will help to keep outside critics honest, while providing early information to management for corrective action.

Seventhly, without disclosing information about costs of corporate social performance, the government and social activist groups cannot know when and where to take action to prevent or to correct company socially irresponsible behaviour. This is important because it does not make economic sense to lay down standards of conduct which are more costly to follow than the costs they are intended to prevent. Furthermore, the effort involved in social performance is not uniform. For example, in the case of pollution, some industries could reduce their emissions a great deal at relatively low cost, while others find it impossible to make much improvement at any cost, however high. Generally, most industries could get some improvement for modest outlays in the early stages, but costs for controlling the last one per cent of pollution are near infinite and very uncertain.[22] Therefore, disclosures of such information should be helpful in leading to the proper kind of governmental intervention that achieves efficient allocation of resources.

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[22] For an industry example of such a logarithmic function of pollution abatement costs, see: Stahrl Edmunds, "Environmental Impacts: Conflicts and Trade-offs", California Management Review, Spring 1977, pp.5-9.

Eighthly, legal requirements regarding the social performance of business organisations are already in existence and tend to encourage social reporting, in addition to their effect on existing financial reporting practices. In the United States, companies are required to publish statistics on minority hiring and equal opportunities. Moreover, the demand for information about corporate social performance is reflected in actions by the Securities and Exchange Commission which is enforcing Securities Act Release No. 5170 advising registered companies to disclose:[23] (1) material on environmental matters which may affect capital needs or earnings; (2) litigation under existing pollution regulations; (3) capital outlays required by anti-pollution legislation and regulations of the Environmental Protection Agency where current or prospective operations will be materially affected.

In Great Britain, under the Companies Act 1967, directors' reports are already required to include a variety of types of social information, such as the average number of United Kingdom employees (where a company employs 100 or more people) and their aggregate remuneration paid during the year, and information about contributions for political and charitable purposes. Moreover, Section 79 of the Health and Safety at Work, etc. Act 1974 amends the Companies Act 1967 requiring companies to include, in their directors' reports, information on health, safety and welfare at work of employees and the general public who may be affected by work activities. Additionally, there have been repeated attempts by successive governments, as previoualy discussed, to reconsider

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[23] See: William J. Casey, "Corporate Responsibility as Seen from the SEC", Business and Society Review, Spring 1972, pp. 24-28

the social responsibilities of British companies underlying company law. For example, the Conservative Government's White Paper of 1973 proposed that the Government should use its power to require public and large private companies to disclose information in the annual directors' report which would give "shareholders and the public the chance to judge companies' behaviour by social as well as financial criteria".[24] Among factors suggested as being appropriate for disclosure in directors' reports were: the performance of a company with regard to the safety and health of its employees; consumer complaints and how they were dealt with; and the conduct of industrial relations.[25] Meanwhile, the recent Bullock Report pushed the issue of disclosure yet further since if some variant of its proposals for workers' participation on company boards materialises, there will have to be far greater disclosure to employees than in the past.

Furthermore, in December 1975 the Secretary of State for Trade issued a "note of guidance" dealing with the form of publication of information relating to the employment of African workers by British companies in South Africe.[26] This information is to be forwarded to the Department of Trade separately even if it is contained in the companies' annual reports.

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[24] The 1973 White Paper, Cmnd. 5391, op. cit., para. 12, p.7.

[25] These factors were incorporated in Schedule 1 to the 1973 Companies Bill which followed the 1973 White Paper. (See: Companies Bill 1973, Bill 52, (London: H.M.S.O., 1973), Schedule 1 to the Bill.)

[26] Secretary of State for Trade, "Wages and Conditions of African Workers Employed by British Firms in South Africa", Cmnd. 5845, (London: H.M.S.O., December 1974), Annex 2, p.6

More recently, a consultative document has been presented to Parliament by the Secretary of State for Trade on "The Future of Company Reports".[27] In this document, the then Labour government has proposed that the annual report and accounts should in future contain, among other things, the following elements: an employment statement giving information about the workforce and employment policies; disclosure of pension commitments; and a statement on energy usage, to be included in directors' reports, which would at the minimum, involve reporting the total annual expenditure by the company on fuel. It was intended that these proposed requirements be introduced in a forthcoming Companies Bill. This indicates the possible future trends governing the disclosure of social information in company annual reports.

Finally, for public accountants, in their management services and advisory roles in business, there is now a chance to expand their services, and hence to increase their rewards. Among required services may be: consultation on complying with environmental pollution control legislation and other socially beneficial requirements, design of social performance information systems; cost and expense analyses of projections for alternative social programmes; preparation of data for short and long range planning and control procedures; and presentation of expert testimony to government officials, social pressure groups and in litigation.

This is supported in Great Britain by the appearance of a group of specialists in corporate social performance information,

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[27] Secretary of State for Trade, "The Future of Company Reports", op. cit.

such as John Humble,[28] and John Hargreaves and Jan Dauman,[29] who by their emphasis on both the theory and techniques of corporate social responsibility accounting have helped to make it a proper concern of the professional manager as well as to offer a number of useful approaches to both conceptualising and dealing with the social performance of business firms.

For these reasons, accountants should become actively involved in accounting for corporate social responsibility performance. But the questions which may immediately arise are: What does "accounting for corporate social responsibility performance" mean? How can corporate social responsibility performance be measured and reported?

The following two sections of this chapter will therefore be devoted to answering these questions.

II. The Concept of Accounting for Corporate Social Responsibility Performance

As a relatively new area of concern, accounting for social performance does not yet have a universally accepted definition. Not only has the concept been defined in many ways, but also, in definition, several different terms are used to describe the new information. These include the terms "social accounting", "social audit",

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[28] See: John Humble, "Social Responsibilities Audit: A Management Tool for Survival", (London: Foundation for Business Responsibilities, 1973). Also see: "The Social Responsibility of Business", in: Harry Miller, (Ed.), "Management and the Working Environment", (London: Hutchinson Benham Ltd., 1975), pp.60-73.

[29] See: John Hargreaves and Jan Dauman, "Business Survival and Social Change: A Practical Guide to Responsibilities and Partnership", *op. cit*.

Also see: John Hargreaves, "The Company and Its Responsibilities: Policy for Responsibility", (London: Foundation for Business Responsibilities, Second Paper in the 1975 Programme, 1975).

"socio-economic accounting", "social responsibility accounting" and "accounting for social performance". However, before a definite name can be chosen, it is necessary to review some different definitions of these titles which have been suggested throughout the short history of social responsibility accounting.

Originally, the term "social accounting" seems first to be mentioned by John Maurice Clark in 1926 in his book, "Social Control of Business".[30] Clark called for a system of "social accounting" when he wrote:

> "Social accounting is an unfamiliar conception, but the thing it describes has a very real existence. The principles of uncompensated costs, of unpaid services, of unused capacities and of conservation, all involve a revising of the market's reckoning of costs and values in the light of a fuller social accountancy.
>
> (a) Complete social accountancy would undertake to set a true social value on all the human values and costs of industry, revising the values set on them by individuals concerned.
>
> (b) A considerable measure of social accountancy is possible, using only the measure of things already found in the market, but really combining them so as to give a more complete picture than is found in books of any one concern. Here it is not so much a question of finding the total income and outgo as of tracing the change due to any particular policy or transaction".[31]

This concept of social accounting as suggested by Clark is broad. However, it seems to have received little further development for many years.

One development was offered by Howard R. Bowen, in 1953.[32]

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[30] John Maurice Clark, "Social Control of Business",(Chicago, Illinois: University of Chicago Press, 1926).

[31] Ibid., pp. 180-181

[32] Howard R. Bowen, "Social Responsibilities of the Businessman" (New York: Harper and Brothers, 1953), especially pp.155-158

In his book, "Social Responsibilities of the Businessman", Bowen saw the need for independent outside experts to evaluate the performance of a business from the social point of view. He called for a "social audit" and described it as follows:

> "Just as businesses subject themselves to audit of their accounts by independent public-accountant firms, they might also subject themselves to periodic examination by independent outside experts who would evaluate the performance of the business from the social point of view. The social auditors would make an independent and disinterested appraisal of a company's policies regarding prices, wages, research and development, advertising, public raltions, human relations, community relations, employment stabilization, etc. They would then submit a comprehensive report to the directors and the management with evaluation and recommendations."[33]

This concept of social audit proposed by Bowen filled an apparent need. A development of this need was advanced by Fred Blum in 1958.[34] Blum also used the term "social audit" and reported on a study he conducted for a Philadelphia Quaker Company (in the United States of America). The company wanted an audit done on how well it was meeting its social responsibilities to its employees. However, that study was primarily an opinion survey rather than an objective evaluation of corporate performance in the social concerns as proposed by Bowen.

In the 1960's, with the increase in interest in business's social responsibility, especially in the United States of America, the need for social responsibility accounting became so obvious that Adolph A. Berle, writing in 1960, predicted that social accounting will be developed and routinely applied within the next 25 years.[35]

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[33] Ibid., p.155

[34] Fred Blum, "Social Audit of the Enterprise", Harvard Business Review, March-April 1958, pp. 77-86

[35] Adolph A. Berle, Jr., "The Corporation in a Democratic Society", in: Melvin Anshen and George L. Back (Eds.), "Management and Corporations 1985"), (New York: McGraw-Hill Book Company 1960), p.84

In the late 1960's David F. Linowes saw a need to widen the scope of accounting. He called for "socio-economic accounting" and defined it as:

> "The application of accounting in the field of social sciences. These include sociology, political science and economics".[36]

This concept sees socio-economic accounting as essentially an extension of the principles, practices, and particularly the skills of conventional accounting and accountants.[37]

Since the early 1970's accounting for social performance became fashionable. There has been a considerable amount written on the subject. For example, Sybil Mobley, in 1970, used the term "socio-economic accounting" as encompassing and extending present accounting and defined it as:

> "... the ordering, measuring and analysis of the social and economic consequences of governmental and entreprenurial behavior. So defined, socio-economic accounting is seen as encompassing and extending present accounting. Traditional accounting has limited its concern to selected economic consequences - whether in the financial, managerial or national income areas. Socio-economic accounting expands each of these areas to include social consequences as well as economic effects which are not presently considered."[38]

Raymond Bauer and Dan Fenn, in 1973, used the term "social audit" and defined it as:

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[36] David F. Linowes, "Socio-Economic Accounting", The Journal of Accountancy, November 1968, pp.37-42, p.37

[37] David F. Linowes, "Social Responsibility of the Profession", The Journal of Accountancy, January 1971, pp.66-69. See also by Linowes:

- "The Need for Accounting in Developing Social Systems", The Journal of Accountancy, March 1970, pp.62-65.

- "The Accountant's Enlarged Professional Responsibilities", The Journal of Accountancy, February 1973, pp.47-51

[38] Sybil C. Mobley, "The Challenges of Socio-Economic Accounting", The Accounting Review, October 1970, pp.762-768, p.762

"... a commitment to a systematic assessment of and reporting on some meaningful, definable domain of a company's activities that have social impact." [39]

Steven Dilley, in 1974, expanded his definition along this line by saying that:

"A social audit is an investigation of an enterprise's performance as a member of the community in which it has its primary impact; such investigation consisting of the presentation of an inventory of the socially relevant activities of the enterprise, quantification (to the extent possible) of the social cost and benefits resulting from these activities, and compilation of other quantitative information providing insight into the social performance of the enterprise." [40]

Recently, Ralph Estes has defined "social accounting" as:

"The measurement and reporting, internal or external, of information concerning the impact of an entity and its activities on society." [41]

A similar definition has been suggested by Marc Epstein, Eric Flamholtz and John McDonough. They have defined "social accounting" as:

"The identification, measurement, monitoring and reporting of the social and economic effects of an institution on society. It is intended for both internal managerial and external accountability purposes." [42]

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39 Raymond A. Bauer and Dan H. Fenn, Jr., "What is Corporate Social Audit?", Harvard Business Review, January-February 1973, pp.37-48, p.38

40 Steven C. Dilley, "What is Social Responsibility: Some Definitions for Doing the Corporate Social Audit", CA Magazine, November 1974, pp.24-28, p.26

41 Ralph W. Estes, "Corporate Social Accounting", (New York: A Wiley-Interscience Publication, 1976), p.3

42 Marc Epstein, Eric Flamholtz and John J. McDonough, "Corporate Social Accounting in the United States of America: State of the Art and Future Prospects", Accounting, Organisations and Society, Vol.1, No.1, 1976, pp.23-42, p.24

More recently, Kavasseri Ramanathan has offered a definition of "social accounting" which reflects the widely accepted meaning of the concept:

> "Social Accounting is the process of selecting firm-level social performance variables, measures, and measurement procedures; systematically developing information useful for evaluating the firm's social performance; and communicating such information to concerned social groups, both within and outside the firm."[43]

From these definitions, there seems to be a wide agreement as to the scope of the concept, although the term has not been precisely defined in the literature. In the minimum sense, social responsibility accounting is concerned with measuring and communicating social performance of a business firm. John Corson and George Steiner put it this way:

> "There are many different ideas about what a social audit is, and consensus on the subject is limited to the agreement that, at a high level of abstraction, the social audit is concerned with the social performance of a business in contrast to its economic performance as measured in the financial audit."[44]

This meaning has also been underscored by John Hargreaves and Jan Dauman, when they state quite simply:

> "The social audit is the measurement and evaluation of an organisation's social responsibility performance."[45]

However, based on the above definitions, several areas of controversy over the concept of accounting for corporate social responsibility performance can be identified. These areas are discussed below.

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43 Kavasseri V. Ramanathan, "Towards A Theory of Corporate Social Accounting", The Accounting Review, July 1976, pp.516-528, p.519

44 John J. Corson and George A. Steiner, "Measuring Business Social Performance: The Corporate Social Audit", (New York: Committee for Economic Development, 1974), p.18

45 John Hargreaves and Jan Dauman, "Business Survival and Social Change", op. cit., p.619

Social Responsibility Accounting versus Social Audit:

It has been suggested that the various titles given to accounting for corporate social performance do not matter. They all deal with the measurement and communication of the firm's social performance.[46] However, the terms "social accounting", socio-economic accounting" and "social audit" are objectionable to the researcher. The problem with the terms "social accounting" and "socio-economic accounting" is that they have been widely used to refer to "national income accounting", "societal accounting" and "macro-accounting".[47] Thus, to help standardise accounting terms and definitions, the use of the term "social accounting" or "socio-economic accounting" should be restricted to its traditional meaning.

The term "social audit" also presents problems. It can be seen as an entirely quantitative measurement, such as the financial audit, and this the social audit is not likely to be. Furthermore, the researcher believes that a distinction should be made between "accounting" as the generation of the social information and "audit-

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[46] Gerald H. B. Ross, "Social Accounting: Measuring the Unmeasurables?", Canadian Chartered Accountant, July 1971, pp.46-54, p.27

[47] See for example:

- Eric L. Kohler, "A Dictionary for Accountants", Fourth Edition, (Englewood Clidds, New Jersey: Prentice-Hall, Inc., 1970), p.391
- G. Bannock, R.E. Baxter and R. Rees, "A Dictionary of Economics", (Harmondsworth, Middlesex: Penguin Books, 1975), p.377
- Trevor Gambling, "Societal Accounting", (London: George Allen and Unwin Ltd., 1974)
- Harold C. Edey, Alan T. Peacock and Ronald Cooper, "National Income and Social Accounting", Third Edition, (London: Hutchinson University Library, 1969).
- Boyd Collier, "Measurement and Environmental Deterioration" Research Monograph No.34, (The University of Texas at Austin: Bureau of Business Research, 1971)

ing" as the attestation of its veracity.

Before corporate social auditing can become formalised practice, several conditions should be met. There must first be a general acceptance of corporate social accountability. Second, social performance standards should be developed. Third, standards of measurement must be developed. Finally, standard formats of social reports should be adopted.[48] After these conditions are met and corporate social reporting is formalised, attestation would come in the last stage and would add a desirable degree of credibility to social reports. This means that accountants should first develop a system to adequately measure and report corporate social performance before that system can appropriately be audited.

Thus, the terms "accounting for social performance" and "social responsibility accounting" will be used interchangeably, in this study, to mean the measurement of and reporting on the social performance of a business organisation. The term "social audit", on the other hand, must be limited to the meaning of an independent outside examination and verification of the information generated internally by a company regarding its social performance. It may be years before this social audit will be materialised. However, it should be emphasised here that such social audit is beyond the scope of this study.

Internal Reporting versus External Reporting:

Another area of controversy is whether the main purpose of corporate social responsibility accounting is to provide management

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[48] See: Donald A. Corbin and Janice M. Ellis, "The Feasibility of Social Reports", Accounting Forum, May-December, 1974, pp.16-24

with information for improving internal decision-making or to enable a company to report its social performance to outside interested parties or the general public. It can be argued that accounting for these two purposes may lead to different kinds of information and different measurement and reporting systems.

Indeed, accounting for corporate social responsibility performance should seek to achieve both internal managerial decision-making and external accountability purposes. It should aim to provide outside groups with information for assessing a company's social performance in all areas of social responsibility. It should also seek to provide management with information for evaluating company performance, determining future priorities for social activities, and setting objectives for future social programmes.

However, the researcher believes that real changes in company behaviour will stem from external social reporting systems rather than from the internal social reporting systems. Therefore, this study will attempt to develop metnods of external social reporting since the researcher thinks that internal systems will not be fully implemented until business companies are required by law to report externally on their social performance. Moreover, as previously mentioned, socially responsible activities may be undertaken by a business company in compliance with the requirements of the law, or in response to pressures from outside social pressure groups or to the plain sensitivity of management to social issues. Hence, external social reporting is essential for satisfying legal requirements, meeting outside pressures and conveying the company's good deeds.

After all, such external social reports would not only be useful to members of the community in evaluating corporate social performance, but would also help management establish goals for assuring that a complete consideration is given to total business needs and public expectations. Also the preparation of such reports would help management to think through the total consequences of their actions, thus resulting in better decisions.

<u>Social Impact versus Social Efforts</u>:

A third area of controversy is whether the corporate social responsibility accounting is to measure and report the social impacts of a company's business activities or to be limited to the measurement and reporting of the company's efforts and commitments in corporate social performance areas. If the ideal social responsibility accounting system is to measure and report all of the impacts of business actions on the quality of life of society, it would have to be capable of identifying (1) all the actions creating impacts, (2) all the impacts thus created, and (3) all those affected.[49] Identifying the actions which create social impacts may be easy, for almost all business actions do so in some degree. However, identifying the nature of the impacts and those affected is very difficult. Many of the characteristics of the quality of life are abstract and intangible and of a type which cannot be identified even with a simple set of business actions. Moreover, social impact chains are very long and have very remote effects.[50] There is also the prob-

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[49] See: American Institute of Certified Public Accountants, the Committee on Social Measurement, "<u>The Measurement of Corporate Social Performance</u>", (New York: American Institute of Certified Public Accountants, 1977), pp.19, 32-43, 275-278

[50] See: Robert K. Elliott, "Measuring the Quality of Life", <u>Accounting Forum</u>, May-December 1974, pp.7-15

lem of obtaining the relevant feedback information.

Furthermore, the quantification of social impacts is nearly impossible, even if the impacts and those affected can be identified. From a measurement point of view, quantification of the social impacts would involve measuring the social costs and benefits of a company's business activities. As will be discussed later in this chapter and the next chapter, the measurement of social benefits and social costs is very difficult, if not impossible.

Therefore, accounting for corporate social responsibility performance should be limited to measuring and reporting the efforts of a business company to either increase social benefits or decrease social costs. Accountants should not attempt to measure and report the costs and benefits to society resulting from a company's activities. In other words, accountants should measure and report the corporate social efforts, not the impacts of these efforts on society.

Social Responsibility Accounting versus Human Resource Accounting:

A final area of controversy is that of "social responsibility accounting" versus "human resource accounting". A review of areas of corporate social responsibility accounting, as was discussed in Chapter II, suggests that the term 'social' is used to include all corporate activities which directly or indirectly affect human values and are not found in the traditional financial accounting. It has been argued therefore, that accounting for a company's social responsibility performance, especially in relation to its employees, may appear to include human resource (asset) accounting.[51] This point needs some clarification.

The Committee of the American Accounting Association on Human Resource Accounting has defined human resource accounting as "the process of identifying and measuring data about human resources and communicating this information to interested parties".[52] Although this definition seems sufficiently broad to be equivalent to

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[51] On this point, see for example:

- Raymond A. Bauer and Dan H. Fenn, Jr., "The Corporate Social Audit" (New York: Russell Sage Foundation, 1972), pp.26-27

- Edward E. Lawler, "Quality of Working Life and Social Accounts", pp.154-165, and Eric Flamholtz, "The Role of Human Resource Accounting in Social Accounting", pp.166-182. Both articles are in: Meinolf Dierkes and Raymond A. Bauer (Eds.), "Corporate Social Accounting", (New York: Pareger Publishers, 1973).

- Steven C. Dilley, "Practical Approaches to Social Accounting", CPA Journal, February 1975, pp.17-21

- The National Association of Accountants, the Committee on Accounting for Corporate Social Performance, "Accounting for Corporate Social Performance", First Report, Management Accounting (U.S.A.), February 1974, pp.39-41

- The American Accounting Association, the Committee on Social Costs, "Report of the Committee on Social Costs", The Accounting Review, Supplement to Vol. XLX, 1975, pp.50-89, especially pp.84-89

- American Institute of Certified Public Accountants, the Committee on Social Measurement, "The Measurement of Corporate Social Performance", op. cit., pp.101-119

- Theo Haiman and William G. Scott, "Management in the Modern Organisation", Second Edition, (Boston: Houghton Mifflin Company, 1974), pp. 434-438

- Clark C. Abt., "The Social Audit for Management", (New York: AMACO, A Division of American Management Associations, 1977), pp.130-132

[52] The American Accounting Association, the Committee on Human Resource Accounting, "Report of Committee on Human Resource Accounting", The Accounting Review, Supplement to Vol. XLVIII, 1973, pp.168-185, p.169

accounting for corporate social performance with respect to employees, the present state of development of human resource accounting is much narrower than this.

However, there are few similarities between the two topics. Both represent attempts to extend accounting methods beyond conventional accounting practices and they have established some foothold in the accounting professions, both may partly use some measurement techniques found in the fields of social psychology and sociology, and both would turn attention to the status of employees within a company.

But, the main theme and objectives of the two subjects are quite different. The core notion of human resource accounting involves placing the cost of the company's human resources as assets on the balance sheet along with its other physical and financial assets. The assumption here is that since the most important assets of many companies are their employees, more account should be taken of their 'cost' to the company. This 'cost' can be determined in several ways.[53] One way is to treat recruitment and training costs as investments rather than expenses. These investments, in turn, should be amortised over their expected life, which may be assessed, either as the length of time that the employee will remain with the company, or the length of time that a skill will remain with the employee.

Another approach is to determine the 'replacement cost' of the

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53 For a brief discussion on methods of determining the cost of a company's human assets, see for example:

N.W.E. Glautier and B. Underdown, "<u>Accounting in a Changing Environment</u>", (London: Pitman Publishing, 1974), pp.167-174 existing work force and use this figure as the value of the company's human resources. This is based on a measure of the costs to replace a company's human resources, including the costs of recruiting, hiring, training and developing replacements of similar abilities, proficiency and working organisational relationships.[54] Another proposal to measure the cost of a company's human resources involves the discounting of future salaries and wages.[55]

Each of these approaches, mentioned above, has the objective of placing human resources on the company balance sheet along with the traditional balance sheet items. Additionally, suggestions have been made to extend human resource accounting to include a company's customers and suppliers.[56] Another extension of human resource

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[54] Texas Instruments Company (U.S.A.) is an example of a company using a replacement cost basis of measuring its human resources. (See: "How Texas Instruments Measures Who's Worth What", Corporate Financing, January-February 1971, p.25)

The R.G. Barry Corporation (U.S.A.) is another example of a company which includes human assets on a supplemental balance sheet. Barry's systemis basically a historical cost system, though replacement cost was used to record estimated human resource investments when the system was first developed, with the aid of Professor Rensis Likert of the University of Michigan, in 1969. (See: R.G. Barry Corporation, Annual Reports of 1969 and after.)

[55] Abt Associates, Inc., (U.S.A.), one of the first companies to publish social statements in their Annual Reports, reflects staff assets in its social financial balance sheet measured in two ways: (a) investments in training less obsolescence, and (b) discounted future salaries. These were suggested together and then the total was aggregated with items in the conventional financial statements. (See: Abt Associates, Inc., 1971 Annual Report and Social Audit, and later Annual Reports.)

[56] See for example:

- Edward C. Bursk, "View Your Customers as Investments", Harvard Business Review, May-June, 1966, pp.91-94

- William C. Pyle, "Human Resource Accounting", Financial Analysts Journal, September - October 1970, pp.69-78

- Rensis Likert, "The Human Organisation - Its Management and Value", (New York: McGraw Hill, 1967)

(Footnote 56 continued overleaf)

accounting is to make social-psychological measures of a work group and trace the predictive power of these measures over several years.[57] This approach treats employee morale and management practice as a corporate resource because they are an integral part of the future profit potential of the company.

It should be noted, from this brief discussion of human resource accounting, that there is always an assumed relationship between human resource investments, replacement cost, or social-psychological measures on the one hand and future profitability of the company on the other. This assumption is not always found in accounting for a company's social responsibility performance relating to its employees.

In corporate social responsibility accounting, a company ought to provide a pleasant and safe work environment even if it does not contribute to, or despite its adverse effect on, profitability. In contrast, human resource (asset) accounting deals with the invest-

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(Footnote No.56 continued)

- R. Lee Brummet, Eric G. Flamholtz and William C. Pyle, "Human Resource Measurement: A Challenge for Accountants", The Accounting Review, April 1968, pp.217-224

- R.L. Woodruff, Jr., "Human Resource Accounting", Canadian Chartered Accountant, September 1970, pp.156-161

- Eric Flamholtz, "A Model for Human Resource Valuation: A Stochastic Process With Service Rewards", The Accounting Review, April 1971, pp.253-267

57 See for example:

- Rensis Likert and William C. Pyle, "A Human Organisational Measurement Approach", Financial Analysts Journal, January-February 1971, pp.75-84

- Rensis Likert, "Measuring Organisational Performance", Harvard Business Review, March-April 1958, pp.41-50 ments in employees made by a company and the importance of employees to the company, based upon their ability and inclination to perform in such a way as to contribute to the company's profitability. In other words, corporate social responsibility accounting deals with the assessment of a company's contribution to the welfare of its employees whereas human resource (asset) accounting deals with the employees' contribution to the welfare of a company.

To sum up, although some include human resource (asset) accounting within the scope of corporate social responsibility performance accounting, human resource accounting is, in the researcher's opinion, merely a modification of traditional financial accounting to capitalise as assets costs which have, before this, been expensed. Thus, human resource (asset) accounting is not included in this study within the scope of corporate social responsibility performance accounting.

III. Approaches for Measuring and Reporting Corporate Social Responsibility Performance

Just as no one definition of accounting for corporate social performance is universally accepted, there has not been agreement as to the proper approach for measuring and reporting social performance.

There are a number of approaches that business organisations might use for measuring and reporting their social performance. These approaches can be grouped into four categories: (1) inventory approach, (2) cost or outlay approach, (3) programme management approach, and (4) cost-benefit approach.

(1) Inventory Approach:

The inventory approach involves the cataloging and narrative description of all existing social programmes which a company has undertaken to meet its social responsibility. This approach has been proposed by Raymond Bauer and Dan Fenn, Jr..[58] Their method is termed "the process audit", and entails four steps:

- Assessing the circumstances which led up to each social programme.
- Explaining the goals of the social programmes.
- Specifying rationale behind the programme.
- Describing (quantitatively where possible) what is being done as opposed to what the rationale says ought to be done.

The emphasis of this method is not on measurement, but rather that the company must make initial steps to arrive at the assessment and evaluation of its social programmes, and for internal decision-making purposes only. The results may be a massive descriptive listing of the company's activities with little or no analysis of costs and related benefits.

This approach has been used by Scovill Manufacturing Company (in the United States) since 1972.[59] In its 1972 Annual Report, the company included a "Social Action Report" describing qualitatively its activities in areas of employment opportunities, environmental controls, community involvement and consumerism. A balance sheet format was adopted for brevity and to emphasise the strengths

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[58] Raymond A. Bauer and Dan H. Fenn, Jr., "What is Corporate Social Audit?", op. cit., pp.47-48

[59] Scovill Manufacturing Company, 1972 Annual Report, p.17

and weaknesses in each area. This report is presented in Exhibit 4.1 on pages 184-187.

The inventory listing has some informational value, and operationally it would not be difficult to develop, but three shortcomings exist. Firstly, the list could be endless, since most activities of a firm can be interpreted as being socially relevant. Secondly, even the most simple listing of socially responsible activities by a company may be seen as self-serving. Finally, comparison between business firms would be extremely difficult because no standard could be used to measure the company's social performance except on the basis of how well the company explained its social activities.[60]

(2) Cost or Outlay Approach:

The cost or outlay approach presents all the firm's socially responsible activities and discloses the expenditures spent on each activity. The cost approach concentrates on inputs and makes no attempt to measure outputs. It involves the identification of costs and the search for ways to reduce such costs. Also, quantitative, but non-financial information relevant to the corporate social performance can be included, such as a number of pounds of sulphur emitted into the air, number of minority (coloured) persons hired during the year, etc.

Three examples are particularly worth recording under the cost

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[60] See: Steven C. Dilley and Jerry J. Weygandt, "Measuring Social Responsibility: An Empirical Test", The Journal of Accountancy, September 1973, pp.62-70. Also see:

- L.J. Brooks and W.R. Davis, "Some Approaches to the Corporate Social Audit", CA Magazine, March 1977, pp.34-35

- Robert H. Anderson, "Social Responsibility Accounting: Measuring and Reporting Performance", CA Magazine, May 1978, pp.39-48

Exhibit 4.1

A Social Action Report: This is an admittedly imperfect attempt to report on our corporate social action. We have used the balance sheet method of reporting - not because it is possible to attach monetary values to all of the things we are doing or should be doing, but aren't - but because it allows for brevity in highlighting strengths and weaknesses in this area. We will welcome comments on the contents and on whether to continue this report.

Employment Opportunities

Assets	Liabilities
Company expansion has provided approximately 10,000 new jobs since 1963.	Fluctuating employment levels still a problem at some plant locations.
One of the first members of Plans for Progress (3/17/64), a voluntary program to provide more job opportunities for minorities.	Need more upgrading of minority employees into higher labor grade jobs.
Minority employment has grown from 6% in 1963 to 19% in 1972.	Need more upgrading of women employees into higher labor grade jobs.
Women now constitute about 40% of total employment.	Closing of Waterbury work training center after Scovill investment of $33,000 State & Federal grants to support it were terminated.
Established National Alliance of Businessmen training program which resulted in hiring of 280 disadvantaged and 170 veterans in last 18 months in Waterbury area.	
Began first major pre-retirement counseling program for employees with U.A.W. in 1964.	
Established one of first effective alcoholism control programs for employees in 1954. (Now includes drug control program.)	

Exhibit 4.1 (continued)

Environmental Controls

Assets	Liabilities
$3,500,000 Waterbury water treatment plant completed Nov. 1972	Problem of disposing of semi-solid sludge from New Waterbury water treatment plant still being researched for a solution.
$3,000,000 air filtering systems for Waterbury mills 80% completed.	New brass chip dryer ($700,000) installed one year ago to reduce air pollution in Waterbury must be modified to comply with new state standards.
$55,000 water treatment facility for Canadian plant completed March, 1972.	New OSHA (Occupational Safety and Health Act) standards may require additional expenditures.
$1,100,000 water treatment facility 70% completed at Clarkesville, Ga. plant.	Intermittent nitrogen dioxide emissions from Waterbury plant a problem requiring further research.
All 10 new plants added since 1959 were built with all necessary pollution control equipment.	

Exhibit 4.1 (continued)

Community Involvement

Assets	Liabilities
Scovill charitable contributions averaged 1.2% of company pre-tax net income over past 5 years (1972 contributions were 8% of common stock dividends).	Programs to provide more low income housing have not been productive enough for time and money expended.
Local non-profit group to which Scovill contributed $163,000 has sponsored 174 units of subsidized housing.	Not enough rehabilitation of inner city neighborhoods.
Scovill partnership with minority businessman is rebuilding 12 vacant apartments and 4 storefronts to demonstrate benefits of rehabilitating deteriorating neighborhoods.	Still much to be accomplished in revitalizing core cities, controlling drug addiction, extending educational opportunities to the disadvantaged, etc ...
Support other such community projects as alcohol and drug control centers, inner city parks, recreational programs, public safety committees....	Failure of programs to help youth groups establish minority owned businesses after Scovill investment of $20,000.
Employee participation in such community activities as selectmen, state representatives, school board members ...	
Scovill loaned executives to federal, state and local governments in 1972.	

Exhibit 4.1 (continued)

Consumerism

Assets	Liabilities
Corporate programs utilizing more effective quality control procedures throughout the company have upgraded product performance.	New and improved procedures to upgrade quality and service to insure customer satisfaction not foolproof - problems still occur and are corrected as soon as possible.
"Dial NuTone" established - a nation-wide telephone network to speed up service and customer communications.	Improve use of products despite more informative product tags and installation instructions.
Nu-Tone added over 100 authorized service stations to its national network in the past year - and expanded its Parts & Service Dept.	Pending or future legislation which may impose more stringent standards for quality and performance.
NuTone simplified its product installation books and added a new Consumer Assurance Laboratory.	
Hamilton Beach made its product tags more informative and simplified and clarified its warranties.	
Hamilton Beach established new nation-wide service organization - trained factory personnel contact independent service stations weekly to insure warranties are enforced.	

Source: Scovill Manufacturing Company, 1972 Annual Report, p.17

or outlay approach. They are: Dilley and Weygandt's Social Responsibility Annual Report, Linowes's Socio-Economic Operating Statement, and Kastenholz's Statement of Social Responsibility Costs. These statements are proposed to accompany the regular financial statements and are not intended to replace them.

Social Responsibility Annual Report (SRAR):

One method of reporting a firm's social performance is the "Social Responsibility Annual Report (SRAR)" proposed by Steven Dilley and Jerry Weygandt.[61] They used an actual Midwestern Gas and Electric Utility Company (in the United States of America) to illustrate their proposal.

An introductory statement to the SRAR, Exhibit 4.2 on page 189 is used to describe the industry, the purpose and scope of the "social audit", and the independent organisation conducting the "social audit". The next two statements in the SRAR, Exhibits 4.3 and 4.4 on pages 190 and 191, present information about the reporting company and the community in which it operates. The next two statements in the SRAR, Exhibits 4.5 and 4.6 on pages 192 and 193 report on emission of air pollutants, and the water consumption and its thermal pollution. The next two statements, Exhibits 4.7 and 4.8 on pages 194 and 195, report on occupational health and safety, and recruitment and promotion of minorities and women. The final statement in Dilley and Weygandt's SRAR, Exhibit 4.9 on pages 196 and 197, is an attempt to integrate the whole social information in the form of a funds flow statement for socially relevant activi-

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61 Steven C. Dilley and Jerry J. Weygandt, "Measuring Social Responsibility: An Empirical Test", op. cit., pp.65-69

Exhibit 4.2

Introductory statement

Utility Company is a gas and electric firm operating in the midwestern United States. Its rates and return on investment are regulated by a state utility commission. The company operates exclusively within a single state, although it receives natural gas and coal from outside the state's borders.

This SRAR has been prepared to measure Utility Company's response to current social concerns. The data contained in this report are true and accurate within the current limits of scientific measurement techniques available for research of this type. Each of the elements attempts to convey to the reader information that may be useful in his social evaluation of the company.

The data were developed as a result of a social audit of the Utility Company. X-Y-Z Associates, an independent research organization, conducted the audit and prepared the following SRAR. Financing for this research project was provided by a midwestern university.

X-Y-Z Associates, Inc.

Source: Steven C. Dilley and Jerry J. Weygandt, "Measuring Social Responsibility: An Empirical Test," _The Journal of Accountancy_, September 1973, p.64

Exhibit 4.3

Company information

Type of company:	Gas-electric public utility			
1971 operating revenues:	$40,000,000			
1971 operating income:	$ 5,500,000			
	Residential	Industrial and commercial	Government and institutional	Misc.
Electric sales revenue (%)	40.0	46.5	8.5	5.0
Number of electric customers	66,000	10,000	40	2
Gas sales revenue (%)	48.0	50.0	-	2.0
Number of gas customers	41,000	6,500	-	5
Number of employees:				
	Subject to union agreements			360
	Supervisors and professional staff			140
	Total			500
	Percent of community population			17%
Age of company:	60 years			
Average salary of employees:	Subject to union agreements			$10,650
	Supervisors and professional staff			$13,500
Community ownership:			Total	Community*
	Common stockholders:		9,000	5,000
	Number of stockholders holding greater than 5 percent of outstanding shares:		None	None
Subsidiary companies owned:	None			
Stock investments in nonsubsidiary companies:	None			

Source: Dilley and Weygandt, p.65

*State in which company is located.

Exhibit 4.4

Descriptive characteristics of the company's social impact on the community

Area in square miles:	700
Population	300,000
Minority group (blacks), % of population:	1.1%
Type:	Urban-suburban, some rural.
Location:	Midwestern U.S.
Economic base:	Industrial, government services.
Physical characteristics:	Rolling plains,
Weather characteristics:	Large seasonal variations in temperature; substantial yearly precipitation.
Number of government units:	50
Median family income:	$11,000
Population - Earning less than poverty level (%):	5.4%
Earning more than $15,000 (%):	27.2%

Source: Dilley and Weygandt, p.66

Exhibit 4.5

Utility Company

Emissions of Air Pollutants* (in millions of pounds)

	Coal	Oil	Gas
		Particulate matter	
	Coal	Oil	Gas
1971	3.3717	0.003	0.111
1970	4.3920	0.001	0.095
		Sulfur oxides	
	Coal	Oil	Gas
1971	17.71	0.046	0.005
1970	22.22	0.027	0.004
		Nitrogen oxides	
	Coal	Oil	Gas
1971	2.69	NA**	NA
1970	3.58	NA	NA

* The company was in compliance with all state and federal laws in regard to air pollution during 1971. Federal air pollution emission standards generally apply to new power plants. No new coal-fired boilers were put in service during 1971. State regulations require compliance with stringent air pollution standards by 1973. To meet those more stringent standards, the company will have to reduce its pollution emissions by 1973. To accomplish this goal, the company is installing electrostatic precipitators to trap 99.5 percent of the particulate matter, using as much natural gas as is available and using low-sulfur coal when it can be obtained. The pollutants emitted during 1971 can impose social costs upon the community which the company serves. These social costs are composed of increased soiling costs, increased incidence of respiratory disease and decreases in property values.

** Not applicable.

Source: Dilley and Weygandt, p.66

Exhibit 4.6

Utility Company

Water resources demands for electric power generation

Type of cooling system:	Once-through		
Source of cooling water:	Fresh-water lake, area 5.4 sq. mi.		
Cooling water data:	Temperature as received	Temperature as discharged	Difference
Winter maximum	40°F	69°F	29°F
Summer maximum	79°F	105°F	26°F
Average rate of water consumption during 1971:	1 cu ft/sec		
Average rate of water withdrawal from water body:	152 cu ft/sec		
Average rate of water discharge to water body:	151 cu ft/sec		
Depth of water withdrawal:	17 ft		
Depth of water discharge:	Surface		

Source: Dilley and Weygandt, p.67

Exhibit 4.7

Utility Company

Occupational health and safety statement for the period July 1, 1971, to December 31, 1971*

Average number of employees during the period:	500
Total hours worked by all employees:	403,000
On-the-job fatalities during the period:	None
Number of workdays lost due to on-the-job injuries:	35
Number of employees affected:	6
% of total employees:	1.2%
Number of workdays lost due to occupational illness:	0
Number of employees affected:	0
% of total employees:	0%

* The data for this statement were derived from OSHA Form No. 103. The information contained on that report is required by the Williams-Steiger Occupational Health and Safety Act. The initial reporting period ran from July 1, 1971, to December 31, 1971. Subsequent reporting periods will run from January 1 to December 31 of each year.

Source: Dilley and Weygandt, p.68

Exhibit 4.8

Utility Company

Minorities recruitment and promotion statement
1971

Total population of community:	300,000
% minorities:	1.1%
Total number of employees	500
Total number of minority Negro and Spanish-surnamed employees:	9
Subject to union contracts:	8
% of all employees subject to union contracts:	2.2%
% of all employees:	1.6%
Supervisory and professional staff:	1
% of all supervisory and professional staff	0.7%
% of all employees:	0.2%
Total number of female employees:	83
Subject to union contracts:	71
% of all employees subject to union contracts:	19.9%
% of all employees:	14.2%
Supervisory and professional staff:	12
% of all supervisory and professional staff:	8.6%
% of all employees:	2.4%
Special minority recruitment and advancement programs:	
Negroes and Spanish-surnamed employees:	None
dollars spent:	$0
Females:	None
dollars spent:	$0

Source: Dilley and Weygandt, p.68

Exhibit 4.9

Utility Company - Statement of funds flow for socially relevant activities - 1971

Environmental			
Installation of electrostatis precipitators (Note 1)		$ 26,000	
Construction of power plants (Note 2)		2,089,000	
Construction of transmission lines (Note 3)		35,000	
Electrical substation beautification (Note 4)		142,000	
Incremental cost of low-sulfur coal (Note 5)		33,670	
Conversion of service vehicles to use of propane gas (Note 6)		3,700	
Incremental cost of underground electric installations (Note 7)		737,000	
Incremental cost of silent jackhammers (Note 8)		100	
Environmental research -			
Thermal	$17,000		
Nuclear	1,955		
Other	38,575		
Subtotal		57,530	
Total environmental funds flow			$3,124,000
Other benefits			
Charitable contributions		$ 26,940	
Employee educational and recreational expenditures (Note 9)		6,000	
Total other benefits			32,940
Total 1971 funds flow for socially relevant activities			$3,156,940
As a percentage of 1971 operating revenues			7.9%
As a percentage of 1971 advertising expenses			8.500%

(Notes overleaf)

Notes to funds statement

1. The company will complete installation of two electrostatic precipitators in 1973. Costs in 1971 totaled $26,000

2. The company is building power plants which will begin operation in the middle to late 1970's. Incremental cash costs of environmental controls installed in these plants during 1971 totaled $2,089,000.

3. The company is constructing a high-voltage transmission line from another community to the company's service area. Environmental cash costs resulting from wider spacing of line towers totaled $35,000 in 1971.

4. The company constructed a new substation in 1971 with an enclosed structure rather than open exposure of the electric transformers. The cost of this enclosure along with landscaping of existing substations totaled $142,000 in 1971.

5. The company used approximately 150,000 tons of coal during 1971 for electric power generation. Low-sulfur content coal comprised 8.6 percent of this coal consumption with the remaining 91.4 percent being coal of a higher sulfur content. The low-sulfur coal cost approximately $2.61/ton more than the high-sulfur coal.

6. Motor vehicles fueled with propane gas contribute substantially less air pollutants to the atmosphere than gasoline-fueled vehicles. During 1971 the company converted 9 more of its fleet of 115 vehicles to use of propane gas. The cost of this conversion was $3,700. Seventeen company vehicles are now operated on propane gas.

7. Underground installation of electric transmission lines has increased since environmental attention has focused on the aesthetic pollution of poles and wires. During 1971 the company installed underground electric transmission lines, which cost $737,000 more than putting the same lines above ground.

8. Jackhammers used by the company are, with one exception, of the normal, noise-polluting type. One jackhammer purchased during 1971 with noise controls cost $100 more than the regular jackhammers.

9. The company reimburses employees for educational expenditures and provides recreational opportunities such as the annual company picnic. Such expenditures amounted to approximately $6,000 in 1971.

Source: Dilley and Weygandt, p.69

ties. It presents the expenditures on pollution control and environmental protection, charitable contributions, and some employee fringe benefits. The total expenditures are expressed as a percentage of the sales revenues to show how much of funds generated from sales have been committed to social activities, and as a percentage of advertising expenses to show the emphasis placed on solving social problems versus creating current and future sales.

The Dilley and Weygandt's SRAR is commendable from three aspects. First, the information it calls for could be obtained from the company records or could be calculated from company raw data for little effort or expense. Second, there is a fair degree of quantification, including certain money figures. Third, the assumption that the reports would be prepared by an independent outside organisation allows for an attainable degree of objectivity and verifiability.

There are also some significant drawbacks:[62] (a) the huge amount of detail and the lack of integration hamper any overall conclusion, (b) the requirement for different sets of reports whenever the relevant social activities differ, and (c) it does not actually reach a judgement on corporate social awareness.

Socio-Economic Operating Statement (SEOS):

A second method of disclosing the firm's social performance is the "Socio-Economic Operating Statement (SEOS)" advanced by David

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[62] Ralph W. Estes, "Corporate Social Accounting, op. cit., p.76

Linowes.[63] It would be prepared periodically by an internal interdisciplinary team headed by an accountant and should be audited by an outside team headed by a Certified Public Accountant (CPA) and including representatives of other disciplines as needed. This statement is presented in Exhibit 4.10 on page 200.

According to Linowes, the SEOS would report detriments as well as improvements. Improvements include the expenditures made or incurred voluntarily to improve the welfare of employees and the public, to enhance the safety of the product, and to protect the environment. Linowes argues that expenditures that are required by law or union contract would not be included, since they are necessary costs of doing business. Detriments reflect the costs avoided or not incurred for social actions needed and have been brought by a responsible authority to the attention of management, but management does not voluntarily respond to such need.

Detriments or costs not incurred would be subtracted from the improvements or costs incurred in each of three categories; relations with people, relations with the environment, and relations with the product. The result reflects the total social performance of the reporting enterprise for the fiscal period. All items in

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63 David F. Linowes, "An Approach to Socio-Economic Accounting", <u>The Conference Board Record</u>, November 1972, pp.58-61

For other works on Linowes's approach see:

- "Let's Get on With the Social Audit: A Specific Proposal", <u>Business and Society Review/Innovation</u>, Winter 1972/1973, pp.39-42
- "The Accounting Profession and Social Progress", <u>The Journal of Accountancy</u>, July 1973, pp.32-40
- "<u>The Corporate Conscience</u>", (New York: Hawthorn Books, Inc., 1974)
- "<u>Strategies for Survival</u>", (New York: American Management Associations, 1973)

Exhibit 4.10

XXXX Corporation - Socio-Economic Operating Statement for the Year Ending December 31, 1971

I Relations with People:	
A. Improvements:	
1. Training program for handicapped workers	$10,000
2. Contributions to educational institution	4,000
3. Extra turnover costs because of minority hiring program	5,000
4. Cost of nursery school for children of employees, voluntarily set up	11,000
Total Improvements	$30,000
B. Less: Detriments	
1. Postponed installing new safety devices on cutting machines (cost of the devices)	14,000
C. Net Improvements in People Actions for the Year	$16,000
II Relations with Environment:	
A. Improvements:	
1. Cost of reclaiming and landscaping old dump on company property	$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
Total Improvements	$83,000
B. Less: Detriments	
1. Cost that would have been incurred to relandscape strip mining site used this year	$80,000
2. Estimated costs to have installed purification process to neutralize poisonous liquid being dumped into stream	$100,000
	$180,000
C. Net Deficit in Environment Actions for the Year	($97,000)
III Relations with Product:	
A. Improvements:	
1. Salary of V.P. while serving on government Product Safety Commission	$ 25,000
2. Cost of substituting lead-free paint for previously used poisonous lead paint	9,000
Total Improvements	$ 34,000
B. Less: Detriments	
1. Safety device recommended by Safety Council but not added to product	$ 22,000
C. Net Improvements in Product Actions for the Year	$ 12,000
Total Socio-Economic Deficit for the Year	($ 69,000)
Add: Net Cumulative Socio-Economic Improvements as at January 1, 1971	$249,000
GRAND TOTAL NET SOCIO-ECONOMIC ACTIONS TO DECEMBER 31, 1971	$180,000

Source: David F. Linowes, "An Approach to Socio-Economic Accounting", Conference Board Record, November 1972, p.60

the SEOS are valued in money terms and are summed to reach the grand total.

The SEOS has some points in its favour. It is simple and inexpensive to achieve. It is easy to understand by all interested parties. It can be used in comparing various companies in the same industry and a particular company over several years.

However, SEOS suffers from several serious deficiencies. First, it gives a firm credit for discretionary social actions, and denies it credit for those social actions mandated by law or enforced by union contract.[64] The difficulty with this method is that it presents a documentation of the temporary failure of laws to protect the welfare of society; as legislation is enacted, the need for SEOS would dwindle. However, the socially responsible activities, as previously stated, do not change in their nature whether they have been undertaken voluntarily by the firm or imposed on it by law. So, the treatment of the costs of these activities must be the same. Second, the definition of detriments, as costs avoided for necessary social actions but which have not been undertaken by management, calls for a degree of subjectivity which can destroy the usefulness of the report. John Burton has put it this way:

> "I have serious misgivings about the feasibility of attempting to identify and isolate elements of what management may not have done but which others may consider it should have done."[65]

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[64] Raymond A. Bauer, "The State of the Art of Social Auditing", in: Meinolf Dierkes and Raymond A. Bauer (Eds.), "Corporate Social Accounting", op. cit., p.12

[65] John C. Burton, "Commentary on Let's Get on With the Social Audit", Business and Society Review/Innovation, Winter 1972/73 p.43

Indeed, when one considers the awesome array of necessary actions which have not been considered by the management of a company, one would find that the most socially responsible enterprise would show a dismal deficit in Linowes's SEOS. In addition, measurement of detriments as costs avoided is a difficult problem. Finally, "the concept of consistency is violated by recognition of social non-action each year until action is taken while recognition of action is limited to the one period in which action is taken, overlooking the benefit period".[66] However, the SEOS net contribution or deficit is not a meaningful measure of social effectiveness.

Statement of Social Responsibility Costs (SSRC):

The third and final example of using the costs approach for measuring and reporting the social performance of a business organisation is the "Statement of Social Responsibility Costs (SSRC)" (Exhibit 4.11 on page 203) suggested by Francis Kastenholz.[67] It has been divided into five categories which are environmental protection, minority employment, minority business support, contribution and community involvement, and conservation. Under each of these areas, all costs incurred are presented less any income from resulting by-products. Detriments are not presented. The costs incurred in all of these areas are summed to show the total social responsibility costs of the reporting company for the fiscal period.

The Kastenholz's SSRC has some favourable characteristics.

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66 Sybil C. Mobley, "Commentary on Let's Get on With the Social Audit", Business and Society Review/Innovation, Winter 1972/73 p.49

67 Francis E. Kastenholz, "On Corporate Social Responsibility", Management Controls, August 1974, pp.165-168

Exhibit 4.11

XYZ Corporation
Statement of Social Responsibility Costs
Year 1974

Environmental protection	
Pollution control equipment (depreciation)	
Manpower (including executive time)	
Additional cost of products due to system	
Supplies	
Research and development	
Interest on bonds for purpose	
	Total expense
Less incomes from resulting byproducts	
	Net expense
	Total
Minority Employment	
Training facilities and supplements	
Supplies	
Manpower (including executive time)	
Operation of day-care center	
Depreciation expense	
	Total
Minority business support	
Loans and investments	
Bad debts and losses	
Extra costs for buying from minority suppliers	
	Total
Contributions and community involvement	
Health, education, housing, transportation	
Poverty programs	
Urban development	
Manpower (including on-job time only)	
	Total
Conservation	
Landscaping and supplies	
Research and development	
Additional production costs	
	Total
Total social responsibility expense	

Source: Francis E. Kastenholz, "On Corporate Social Responsibility", Management Controls, August 1974, p.167

It does not include detriments or negative charges, so it is straightforward and fairly simple to understand. It provides useful information to help the user to establish some basis for evaluating the level of the firm's social performance. Additionally, it permits inter-firm and inter-period comparability.

The disadvantages of the SSRC and the cost or outlay approach as a whole seem to be: (a) its application poses difficult problems of cost allocation, (b) certainly no listing of expenses has any validity unless some sort of cost-effectiveness standards are applied, and (c) it provides information needed to guide operating officials within the company, but offers no measures of achievement which will satisfy the demands for information by outsiders.

(3) Programme Management Approach:

This approach goes one step further than the cost approach. The programme management approach proceeds by identifying the company's social activities, quantifying the money spent on each activity or programme, and discloses whether or not the objectives of each activity or programme have been met.

This approach has been pioneered by the Bank of America.[68] The objectives of the approach are to develop a system that will approximate to the costs of social programmes, evaluate the effectiveness of these programmes, and enable the bank to budget intelligently and improve its social return on investment. The approach involves programme evaluation concerning three basic elements: historical perspective, cost analysis, and benefit

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[68] See: Bank of America, "1972-1976 Annual Reports", (Los Angeles: Bank of America, 1973-1977). Also see: "The Community and the Bank", A Report on 1975 Social Policy Activities, (Los Angeles: Bank of America, 1976).

analysis. The approach provides useful information for internal reporting purposes only. It should allow management to incorporate social considerations into the overall planning and budgeting process.

Social Responsibility Programme Statement (SRPS):

Another example of using the programme management approach is the "Social Responsibility Programme Statement (SRPS)" proposed by Charles Brandon and Joseph Matoney, Jr.[69] They proposed, as an introductory statement to their SRPS, a statement of "Social Responsibility Goals", (Exhibit 4.12 on page 206), to disclose the goals and objectives set by management in the areas of social concern . Once goals and objectives have been established, the management would design and implement the appropriate programmes to achieve them.

Following the taxonomy suggested by the National Association of Accountants' Committee on Accounting for Corporate Social Performance,[70] Brandon and Matoney have divided their SRPS (Exhibit 4.13 on page 207) into four separate sections which are human resources, physical resources, product or service contributions, and community involvement.

The SRPS, on the other hand, is divided into three columns reflecting programmes, committed resources to each programme, and

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[69] Charles H. Brandon and Joseph P. Matoney, Jr., "Social Responsibility Financial Statement", Management Accounting, (U.S.A.), November 1975, pp. 31-34

[70] National Association of Accountants, the Committee on Accounting for Corporate Social Performance, First and Second Progress Reports, Management Accounting, (U.S.A.), February 1974, pp.39-41, and September 1974, pp.59-60

Exhibit 4.12

SOCIAL RESPONSIBILITY GOALS

I. Human resources

<u>Controlling Goal</u>
To provide for the physical and mental health and well being of employees

<u>Substantive Goal</u>
Employee health - To promote employee health by providing a safe job environment, a system of health care insurance and outlets for physical exercise and recreation.
Employee education - To encourage employee education by supporting general educational courses and financing of college and university instruction.

II. Physical resources

<u>Controlling Goal</u>
To provide for the efficient use of physical resources in our manufacturing operations through reduction of waste and an awareness of environmental impacts - To promote reclamation of land damaged by past operations.

III. Product or service contribution

<u>Controlling Goal</u>
To provide a product safe and reliable in use, with recycling possibilities where possible and minimal packaging.

<u>Substantive Goal</u>
To improve product safety and reliability through research and development.

IV. Community involvement

<u>Controlling Goal</u>
To be a responsible participant and supporter of community affairs.

<u>Substantive Goal</u>
To provide financial and advisory support to local minority business and training for unskilled workers through direct action and support and through charitable contributions.

Source: Charles H. Brandon and Joseph P. Matoney, Jr., "Social Responsibility Financial Statement", <u>Management Accounting</u> (U.S.A.), November 1975, p.32

Exhibit 4.13

SOCIAL RESPONSIBILITY PROGRAM STATEMENT

I Human Resources		
Program	Committed resources	Effect on human behavior and/or environment
Company medical plan	$ ____ Health insurance contribution	____ Number of employees covered $____ Claims paid during year
Job safety program	$ ____ Expended for non-compulsory safety equipment ____ Man-hours spent on safety seminars and instruction ____ Suggestions adopted	____ injuries/1000 man-hours ____ Ratio of employee injuries to industry average
Leisure and recreation	$____ $____ Land value	____ Employees participants in softball league ____ Man-hour usage of company athletic facilities
Education	____ Employees participating in company courses of instruction $____ Tuition paid	____ Employees successfully completing company courses of instruction ____ Credit hours financed at colleges or universities ____ Degrees awarded to employee participants in tuition reimbursement program
II Physical resources		
Program	Committed resources	Effect on human behavior and/or environment
Company recycle program	____ Man-hours spent on special studies	____ Tonnage recycled ____ Ratio of waste/final output ____ Energy usage/final output
Land reclaimation program	$____	____ Ratio of reclaimed/damaged land
III Product or service contributions		
Program	Committed resources	Effect on human behavior and/or environment
Product safety	$ ____ ____ Product research man-hours	____ Product safety innovations implemented
Packaging reduction	$____ ____ Product research man-hours	____ Reduction in tons of non-recyclable packaging ____ Tons of product of packing recycled
IV Community involvement		
Programs	Committed resources	Effect on human behavior and/or environment
Local business development	$____ Funds contributed $____ Loans to minority $____ Business averaging ____ Man-hours spent training unemployed	____ Businessmen receiving free consulting ____ Workers trained and removed from welfare
Community fund	$____ Contributions ____ Man-hours devoted to lecture on United fund activities	____ Percentage of employees contributing fair share

Source: Charles H. Brandon and Joseph P. Matoney, Jr., "Social Responsibility Financial Statement", Management Accounting (U.S.A.), November 1975, p.31

the effect on human behaviour and/or environment. This third column is considered the key to the proposal, because it discloses the results or efforts of the resources committed by the firm and it provides a means of comparing actual results with the objectives set by management.

The SRPS suggested by Brandon and Matoney has some advantages. It permits inter-period comparability because it reports on the results of a single year's operations. It also allows inter-firm comparability because of its appropriateness for adoption by a wide range of firms. Moreover, it is designed to utilise current quantitative measures of social responsibility performance and encourage the development of more quantitative measures in the future.[71]

However, this method of presentation has the difficulty of developing objectives at this early stage of accounting for corporate social performance. Besides, the programme management approach has some limitations. First, it will not be useful for external reporting purposes. Second, it only evaluates "socially oriented" programmes that are considered to be quantifiable. Finally, it is of little value in the selection of priorities, because performance is related only to the objectives of that particular programme and little information is generated about the impact of these programmes

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[71] Brandon and Matoney, op. cit., p.64

of any particular social problem.[72]

(4) Cost-Benefit Approach:

The cost-benefit approach attempts to quantify the costs and benefits of corporate social programmes. This approach is different from the programme management approach in that the real worth of the programme must be determined. In the programme management approach, some surrogates for benefits are used, such as the number of loans given to minority enterprises, number of students graduating from universities through the help of students' loans, etc. The cost-benefit approach involves determining the costs and benefits associated with alternative socially responsible actions a business firm is considering undertaking. Both positive and negative effects on society should be measured and reported.

The cost-benefit approach is the most informative method of measuring and reporting the business's social performance, but measurement of the benefits is often difficult to achieve.[73] In addition, matching just does not seem appropriate when benefits are primarily external to the company. No theoretical rationale, therefore for the development of a net social contribution or deficit figure is offered.[74] Even if there are benefits to the company

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[72] See: Bernard L. Butcher, in: American Institute of Certified Public Accountants (AICPA), "Social Measurement", (New York: AICPA, 1972), pp.96-103. Also see:

- Bernard L. Butcher, "The Program Managament Approach to the Social Audit", California Management Review, Vol. XVI, No.1, Fall 1973, pp.11-16

- Bernard L. Butcher, "Corporate Social Audit - A Program Management Approach", Journal of General Management, Vol.2, No.1, Autumn 1974, pp.80-85

[73] George A. Steiner, "Should Business Adopt the Social Audit?", The Conference Board Record, May 1972, pp.7-10

[74] Neil C. Churchill, "Toward a Theory for Social Accounting", Sloan Management Review, Spring 1974, pp.1-7

concerned in terms of good image, goodwill and the like, there is no sound reason for measuring and reporting these benefits on the same ground of not accounting for intangible assets. Moreover, the accounting policy of conservatism would require one not to recognise unmeasurable and less certain social benefits, but to record any reasonable estimates of all costs of corporate social activities.

However, three examples deserve to be presented under this approach. These include Abt's Social Balance Sheet and Social Income Statement, Seidler's Social Income Statement, and Estes's Social Impact Statement.

Abt's Social Balance Sheet and Social Income Statement:

Clark Abt, the originator of this method, has used a social responsibility accounting in his company, Abt Associates, Inc., since 1971.[75] This method, often referred to as "the constituent impact approach",[76] attempts to determine the impact of the total company on its constituents: employees, customers, community and the general public. All items are measured in monetary terms and are reported in a balance sheet and income statement format. The balance sheet presents assets available to society (social assets) of staff, organisation, research, and the excess of taxes paid over public services consumed; and social commitments, obligations, and equity consisting of staff committed to contracts or internal administration, organisational requirements, environmental obliga-

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[75] Abt Associates, Inc., "1971 Annual Report and Social Audit", (Cambridge, Massachusetts: Abt Associates, Inc., 1972). Also see:

- Clark Abt., "Managing to Save Money While Doing Good", Innovation, No.27, January 1972, pp.38-47

[76] Marc Epstein, Eric Flamholtz and John J. McDonough, op. cit., p.26

tion (including an obligation for pollution), and "society's equity" which is calculated by subtracting the sum of social liabilities from the sum of social assets. The social income statement presents the net social incomes. These were computed by subtracting the sum of social costs of each constituency from the sum of social benefits. These net social incomes are assumed to be distributed as they are created, so they do not flow into the social balance sheet since such social earnings are not retained. Extensive explanatory footnotes to explain concepts and measurement approaches are provided. These social statements are presented in Exhibit 4.14 on pages 212-215.

The Abt's model has undergone some change in each year of its inclusion in the annual report. In the 1973 annual report,[77] the company implemented a new format which integrates the social and financial balance sheets and income statements. Further, an estimation of the financial return on social investment has been introduced, since Abt believes that the financial earnings of the company result from both the financial and the social investments.

The Abt's model is the first comprehensive attempt to quantify and assess all aspects of a company's social programmes. But it has been severely criticised for its attempts at complete monetisation and complicated results which undermine the understandability and relevance of the statements.[78] The Abt's model makes no distinction between direct effects and indirect effects. For example

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77 Abt Associates, Inc., "1973 Annual Report and Social Audit", (Cambridge, Massachusetts: Abt Associates, Inc., 1974).

78 Raymond A. Bauer and Dan H. Fenn, "What is a Corporate Social Audit?", op. cit., p.43

Exhibit 4.14

Abt Associates Inc. Social and Financial Balance Sheet

Suppliers of Social Resources	SOCIAL ASSETS are resources which promise to provide future social and economic benefits and are a social asset to the company valued at their present worth.	Notes	1975	1974
Staff (Note 44)	Staff Available Within One Year	1	$ 8,225,000	$ 7,555,000
	Staff Available After One Year	2	16,276,000	14,095,000
	Training Investment	3	3,752,000	2,986,000
			28,253,000	25,436,000
	Less Accumulated Training Obsolescence	4	1,526,000	1,422,000
	Total Staff Assets		$26,727,000	$24,014,000
Organization	Creation and development of Organization	6	$ 911,000	$ 554,000
	Child Care Development	7	51,000	25,000
	Social Audit Development	8	50,000	46,000
	Total Organizational Assets		$ 1,012,000	$ 625,000
General Public and Community	Public Services Paid For Through Taxes (Net of Consumption)	10	$ 940,000	$ 641,000
	Total Public and Community Assets		$ 940,000	$ 641,000
Stockholders	Cash	13	$ 102,000	$ 27,000
	Accounts Receivable Less Allowance For Doubtful Accounts	13	1,655,000	1,567,000
	Unbilled Contract Cost and Fees	13	2,137,000	1,886,000
	Other Current Financial Assets	13 & 14	157,000	137,000
	Other Assets	13 & 14	44,000	38,000
	Total Current Assets		$ 4,095,000	$ 3,655,000
	Physical Assets:			
	Recreation Center	13	$ 106,000	$ 106,000
	Land and Improvements	13	508,000	467,000
	Buildings and Improvements	13	3,718,000	3,649,000
	Equipment, Furniture, and Fixtures	13	486,000	430,000
	Total Physical Assets		4,818,000	4,652,000
	Less Accumulated Depreciation	13	496,000	336,000
	Total Net Physical Assets		$ 4,322,000	$ 4,316,000
	Total Stockholders' Assets		$ 8,417,000	$ 7,971,000
TOTAL		15	$37,096,000	$33,251,000

Exhibit 4.14 (continued overleaf)

Exhibit 4.14 (continued)

SOCIAL LIABILITIES
are future sources of economic or social cost and are valued at their present economic worth.

	Notes	1975	1974
Staff Wages Payable	5	$26,727,000	$24,014,000
Total Staff Liabilities		$26,727,000	$24,014,000
Organizational Financing Requirements	9	$ 1,189,000	$ 1,056,000
Total Organization Liabilities		$ 1,189,000	$ 1,056,000
Accumulated Pollution To The Environment Caused By Company Operations:			
Electricity Generation	11	$ 168,000	$ 113,000
Staff Commuting	11	77,000	58,000
Paper Consumed	11	25,000	18,000
Total Public and Community Liabilities		$ 270,000	$ 189,000
Notes Payable	13	$ 106,000	$ 406,000
Accounts Payable and Accrued Expenses	13	1,120,000	788,000
Accrued Expenses	13	1,065,000	1,059,000
Federal Income Taxes	13	6,000	24,000
Deferred Federal Income Taxes	13	167,000	$ 98,000
Notes Payable (Long-Term)	13	2,192,000	2,300,000
Leasehold Interest in Property	13	131,000	130,000
Total Stockholders Liabilities		$4,787,000	$ 4,805,000
		$32,973,000	$30,064,000

SOCIAL EQUITY
or society's investment in the company is created by recognizing the difference between the net increase in value of social assets and social liabilities.

	1975	1974
See statement below for financial equity that is not a social asset or liability		
Total Staff Equity	0	0
Total Organizational Equity	$ (177,000)	$ (431,000)
(Note 12) Total General Public and Community Equity	$ 670,000	$ 452,000
Staff Stockholders' Equity		
Common Stock	$ 93,000	$ 95,000
Additional Paid-In Capital	469,000	480,000
Retained Earnings	580,000	444,000
Total	$1,142,000	$1,019,000
Non-Staff Stockholders' Equity:		
Common Stock	202,000	200,000
Additional Paid-In Capital	1,022,000	1,011,000
Retained Earnings	1,264,000	936,000
Total	$2,488,000	$2,147,000
Total Stockholders' Equity	$3,630,000	$3,166,000
(Note 16)	$4,123,000	$3,187,000

Exhibit 4.14 (continued overleaf)

Exhibit 4.14 (continued) Abt Associates Inc. Social and Financial Income Statement

Suppliers of Social Resources	SOCIAL BENEFITS are social or economic resources that are generated by company operations and have a positive impact or add to society's resources	Notes	1975	1974
Company/Stockholders	Contract Revenue	17	$15,806,000	$16,423,000
	Federal Services Consumed	18	253,000	262,000
	State Services Consumed	19	95,000	104,000
	Local Services Consumed	20	42,000	40,000
	Pollution to the Environment Caused by Company Operations:	21		
	Generation of Electricity	22	55,000	37,000
	Staff Commuting	23	19,000	21,000
	Paper Consumed	24	7,000	7,000
	Dividends	25	74,000	59,000
	Total Company/Stockholder Benefits		$16,351,000	$16,953,000
Staff (Note 44)	Salaries Paid for Time Worked	45	$ 6,473,000	$ 6,231,000
	Career Advancement	46	758,000	700,000
	Vacation and Holidays	47	763,000	719,000
	Health, Dental and Life Insurance	48	454,000	461,000
	Sick Leave	49	185,000	105,000
	Retirement Income Plan	50	118,000	50,000
	Employee Stock Ownership Plan	51	30,000	0
	Staff Food Service	52	73,000	67,000
	Parking	53	121,000	95,000
	Quality of Work Space	54	122,000	134,000
	Tuition Reimbursement	55	23,000	15,000
	Child Care Facility	56	26,000	10,000
	Credit Union	57	16,000	11,000
	Recreation Center	58	35,000	27,000
	Total Staff Benefits		$ 9,197,000	$ 8,713,000
Clients/General Public	Value of Contract Research	65	$15,806,000	$16,423,000
	Staff Overtime Worked But Not Paid	66	1,036,000	1,101,000
	Federal Taxes Paid	67	462,000	474,000
	State and Federal Tax Worth of Net Jobs Created	68	25,000	96,000
	State Taxes Paid	67	109,000	130,000
	Contribution to Knowledge	69	72,000	60,000
	Total Client Benefits		$17,510,000	$18,367,000
Community	Local Taxes Paid	73	$ 118,000	$ 78,000
	Local Tax Worth of Net Jobs Created	74	4,000	16,000
	Environmental Improvements	75	29,000	36,000
	Reduced Parking Area	76	0	29,000
	Total Community Benefits		$ 151,000	$ 159,000
	Total	79	$43,209,000	$44,192,000

Exhibit 4.14 (continued overleaf

Exhibit 4.14 (continued)

SOCIAL COSTS
are social or economic resources that are consumed by company operations and are a cost, sacrifice or detriment to society.

	Notes	1975	1974
Salaries Paid (Exclusive of Training Investment and Fringe Benefits	26	$ 5,707,000	$ 5,296,000
Training Investment in Staff	27	766,000	935,000
Direct Contract Cost	28	4,298,000	5,529,00
Overhead/General Administrative Expenditures Not Itemized	29	1,823,000	1,796,000
Vacation and Holidays	30	763,000	719,000
Improvements in Space and Environment	31	127,000	137,000
Federal Taxes Paid	32	462,000	474,000
State Taxes Paid	32	109,000	130,000
Local Taxes Paid	32	118,000	78,000
Health, Dental and Life Insurance	33	252,000	256,000
Sick Leave	34	185,000	185,000
Staff Food Service	35	73,000	67,000
Child Care Facilities	36	26,000	18,000
Tuition Reimbursement	37	23,000	15,000
Employee Stock Ownership Plan	38	30,000	0
Interest Payments	39	267,000	197,000
Income Foregone on Paid-In Capital	40	306,000	265,000
Social Audit Development	41	4,000	14,000
Retirement Income Plan	42	118,000	50,000
Total Company/Stockholders Equity		$15,457,000	$ 16,161,000
Opportunity Cost of Total Time Worked	59	$ 7,509,000	$ 7,540,000
Absence of Retirement Income Plan	60	0	1,000
Layoffs and Involuntary Terminations	61	115,000	77,000
Inequality of Opportunity	62	1,000	1,000
Uncompensated Losses Through Theft	63	1,000	1,000
Reduced Parking Area	64	0	29,000
Total Staff Cost		$ 7,626,000	$ 7,649,000
Cost of Contract Work to Clients	70	$15,806,000	$ 16,423,000
Federal Services Consumed	71	253,000	262,000
State Services Consumed	71	95,000	104,000
Pollution to the Environment Caused by Company Operations:	72		
Generation of Electricity	22	55,000	37,000
Staff Commuting	23	19,000	21,000
Paper Consumed	24	7,000	7,000
Total Cost to Clients		$16,235,000	$ 16,854,000
Increased Parking Area	77	$ 3,000	$ 0
Local Services Consumed	78	42,000	40,000
Total Cost to Community		$ 45,000	$ 40,000
Total		$39,363,000	$ 40,704,000

NET SOCIAL INCOME
or social profit is the social gain or loss to society resources that result from company operations.

	1975	1974
Net social income is a social dividend paid out to company/stockholders, and it does not accrue the net social worth on the balance sheet.		
Total Company/Stockholders Equity (Note 43)	$ 894,000	$ 792,000
Net social income is a social dividend paid out to staff, and it does not accrue to the net social worth on the balance sheet.		
Total Staff Equity	$ 1,571,000	$ 1,064,000
Net social income is a social dividend paid out to clients/general public, and it does not accrue to the social net worth on the balance sheet.		
Total Client Equity	$ 1,275,000	$ 1,513,000
Net social income is a social dividend paid out to the community, and it does not accrue to the social net worth on the balance sheet.		
Total Community Equity	$ 106,000	$ 119,000
Total (Note 80)	$ 3,846,000	$ 3,400,000

Source: Abt Associates Inc., 1975 Annual Report: Financial Statements and Social Audit, pp. 12-15 the costs of pollution which is caused by Abt's suppliers of electricity and paper are recognised, but the pollution through disposing of the paper used by the company itself and its direct effect is neglected.[79] Another problem with Abt's model is that consistency is violated when all environmental costs are seen as liabilities, not as deductions from earnings, whereas environmental improvements as benefits are added to earnings.[80] This has the effect of reducing equity and increasing net social income, thereby raising the return on equity regardless of social performance. Additionally, lack of articulation between the two statements exists.

Abt readily admits that the model "lacks completeness and precision".[81] He further states:

> "There are numerous theoretical weaknesses and incompletions in this social audit, which are being addressed in subsequent and hopefully improved efforts. For example, some of the social benefits, such as employee benefits, overlap with financial costs, while others such as equality of opportunity, do not. Some of the benefits and costs accruing to employees also accrue to the community, such as new jobs and skills developed. An argument could be made for the employee net benefits to be included in the community net benefits, and for the community net benefits and clients net benefits to be included in the overall net benefits to the public." [82]

Seidler's Social Income Statement:

Lee J. Seidler has suggested a social income statement for profit seeking enterprises to measure all the effects of a company

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[79] John Tepper Marlin, "Accounting for Pollution", The Journal of Accountancy, February 1973, pp.41-46

[80] Ibid., p.46

[81] Abt Associates, Inc., "1971 Annual Report and Social Audit", (Cambridge, Massachusetts: Abt Associates, Inc., 1972), p.7

[82] Clark C. Abt., "Social Audits - The State of the Art", paper presented at Conference on Corporate Social Responsibility, sponsored by "Business and Society" and "Business and Society Review", New York, October 1972, p.13

on society.[83] To get from the private performance represented by "value added" to a measure of social performance, Seidler believes that value added is the best point to start with and then calls for adding "socially desirable outputs not sold" generated by the company (social benefits), and deducting "socially undesirable effects not paid for" by the company (social costs). The resulting figure represents the "net social profit (or loss)".

Following the frequent assertion that businessmen are accustomed to thinking only in money terms, Seidler argues that "money measurement would be most useful in social accounting".[84]

Estes's Social Impact Statement:

Ralph W. Estes has proposed the most ambitious and comprehensive corporate social reporting model to maximise net social benefits.[85] Estes's report, Exhibit 4.15 on page 218, permits the disclosure of total direct costs and benefits for evaluating the total direct impact of an organisation on society. Society's point of view has been taken. Estes has designed a broader and more inclusive meaning for social benefits and costs to reflect all benefits and detriments to society (or to any element of society), whether economic or non-economic, internal or external. The model proposed would match social benefits and costs generated by a company, and

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[83] Lee J. Seidler, "Dollar values in the Social Income Statement", in: Lee J. Seidler and Lynn L. Seidler (Eds.), "Social Accounting: Theory, Issues and Cases", (Los Angeles: Melville Publishing Company, 1975), pp.1-13. For a similar suggestion, also see:

- David Solomons, "Corporate Social Performance: A New Dimension in Accountancy Report?", in: Edey and Yamey (Eds.), "Debits and Credits, Finance and Profits", (London: Sweet and Maxwell, 1974), pp.131-141

[84] Lee J. Seidler, "Dollar Values in the Social Income Statement", op. cit., p.11

[85] Ralph W. Estes, "A Comprehensive Corporate Social Reporting Model", The Federal Accountant, December 1974, pp.9-19

Exhibit 4.15

THE PROGRESSIVE COMPANY
Corporate Social Report
For the Year Ended December 31, 1984

Social Benefits:			
Products and services provided		$xxx	
Payments to other elements of society -			
Employment provided (salaries and wages)	$xxx		
Payments for goods & other services	xxx		
Taxes paid	xxx		
Contributions	xxx		
Dividends & interest paid	xxx		
Other payments	xxx	xxx	
Services to employees		xxx	
Improvements in environment		xxx	
Staff services donated to others		xxx	
Equipment & facility services donated		xxx	
Other benefits		xxx	
Total Social Benefits			$xxx
Social Costs:			
Human services used		xxx	
Raw material purchases		xxx	
Building & equipment purchases		xxx	
Other goods & materials used		xxx	
Payments from other elements of society -			
Payments to company for goods & services	$xxx		
Additional capital investments	xxx		
Loans	xxx		
Other payments	xxx	xxx	
Environmental damage -			
Terrain damage	$xxx		
Air pollution	xxx		
Water pollution	xxx		
Noise pollution	xxx		
Solid waste	xxx		
Visual pollution	xxx		
Other environmental damage	xxx	xxx	
Public services used		xxx	
Public facilities used		xxx	
Work-related injuries and illness		xxx	
Other social costs		xxx	
Total Social Costs			xxx
Social Surplus (Deficit) for the Year			$xxx
Accumulated Surplus (Deficit) for Company, December 31, 1983			xxx
Accumulated Surplus (Deficit) for Company, December 31, 1984			$xxx

Standard Footnotes:
1. Significant secondary effects associated with inputs.
2. Significant secondary effects associated with outputs.
3. Environmental protection outlays and activities.
4. Employment and promotion of minorities and women.
5. Bases for measurements and estimates.

Source: Ralph W. Estes, "A Comprehensive Corporate Social Reporting Model", The Federal Accountant, December 1974, p.12

the resulting net surplus or deficit would reflect the full impact on society. All items in the report would be valued in money and some standard footnotes are provided.

Abt's, Seidler's and Estes's proposals are commendably ambitious. They are comprehensive, as they allow for reporting all significant effects of a business firm on society. They take the measurements from society's viewpoint, and they all use money values for all items. But, as mentioned earlier, the benefits in the cost-benefit approach are difficult to define and to quantify.

Seidler has noted the difficulty in assigning money values to all items in his statement when he writes:

> "There is an obviously difficult problem in attributing values to some of the highly subjective phenomena that would be encountered in any social accounting system."[86]

Estes also has realised the difficulties with monetary value measurements when he states clearly:

> "All items in the report are valued in dollars. This may be disturbing for two reasons: dollar values (1) are more difficult to estimate than other quantities, and (2) are perceived by some as anti-human (suggesting "pursuit of the almighty dollar")."[87]

However, the proposals discussed under the cost-benefit approach are presently unrealistic, impractical[88] and expensive.

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[86] Lee J. Seidler, op. cit., p.10

[87] Ralph W. Estes, "Corporate Social Accounting", op. cit., p.95

[88] In spite of the fact that the cost-benefit approach has been used by Abt Associates, Inc., it can not be adopted by others. This is because the spearhead of the Abt's model is the owner and president of the firm, Dr. Clark Abt himself; and Abt Associates is a considerably smaller firm (it is a service and consulting firm which neither manufactures nor sells a tangible product). See: Raymond A. Bauer, "The Corporate Social Audit: Getting on the Learning Curve", California Management Review, Fall 1973, Vol. XVI, No.1, pp.5-10

Estes recognises this when he described his model by saying that:

> "This model is highly idealistic, and not presently practical for all firms; the objective here is to suggest a standard, a goal, for social reporting." [89]

Estes concludes:

> "... some of the information needed, however, will require extensive system changes or expensive ad hoc studies." [90]

To sum up, the fundamental issue relative to the cost-benefit approach is the measurement problem. As pointed out earlier, while an adequate methodology could be devised to measure the costs of social programmes, measuring the corresponding benefits poses an extremely difficult problem. The reason is that, from the standpoint of accounting, measurement means absolute money values. This problem was expressed briefly by the Study Group of the American Institute of Certified Public Accountants on Objectives of Financial Statements by saying:

> "To go further in reporting the relationship between private and social sacrifices and benefits is difficult, because the sacrifice is largely monetary and the related benefit is mainly non-monetary." [91]

From these approaches, the researcher contends that the inventory approach is the least informative method. Besides, it would be difficult to establish rules governing what should be included in a listing of the firm's socially responsible actions and such listings could not easily and meaningfully be used as the basis of

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89 Ralph W. Estes, "A Comprehensive Corporate Social Reporting Model", op. cit., p.13

90 Ibid., p.18

91 American Institute of Certified Public Accountants, the Study Group on Objectives of Financial Statements, "Objectives of Financial Statements", op. cit., p.54

comparisons among firms. The researcher also contends that the cost-benefit approach is the most informative method, but the measurement of the benefits is almost an unsurmountable problem.

The approach to be selected therefore should provide the most information possible and still provide an adequate means of measurement and implementation. The best alternative appears to be either the cost (outlay) approach or the programme management approach. Because of the difficulties of developing objectives for social responsibility programmes, the cost or outlay presentation seems to be the most appropriate approach at this early stage of development of accounting for corporate social performance. Under the cost approach, all quantifiable, but non-monetary measures, should be presented in addition to monetary measurements. The National Association of Accountants' Committee on Accounting for Corporate Social Performance appears to favour this approach. The Committee says:

> "In accounting for social performance, monetary units do not necessarily apply to its entire scope and may need to be complemented by other forms of measurement."[92]

The 1970-71 Committee on Non-Financial Measures of Effectiveness of the American Accounting Association also saw the same view and suggested the tons of sulphur particles emitted per unit of time as an example of a measure of pollutants added to air and water resources.[93]

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[92] National Association of Accountants, the Committee on Accounting for Corporate Social Performance, The First Report, op. cit. p.38

[93] The American Accounting Association, the Committee on Non-Financial Measures of Effectiveness, "Report of Committee on Non-financial Measures of Effectiveness", The Accounting Review, Supplement to Vol. XLVI, 1971, p.186

Summary and Conclusions

This chapter has reviewed the current literature of accounting for corporate social responsibility performance. The chapter was divided into three sections. In the first section, the need for corporate social responsibility accounting was discussed. The reasons for which accountants should be actively involved in measuring and reporting information on corporate social performance were presented. It was concluded that accounting and reporting for corporate social responsibility performance are inevitable.

In the second section, the different names which have been used in the literature to describe the new social information were presented. These names include "social accounting", "social audit", "socio-economic accounting", "social responsibility accounting" and "accounting for social performance". Some different definitions of these names were reviewed and it was pointed out that there appears to be wide agreement as to the scope of the concept, that is the measuring of and reporting on the social performance of a business company. The problems with using the terms "social accounting", "socio-economic accounting" and "social audit" were discussed. It was concluded that the terms "social responsibility accounting" and "accounting for social performance" will be used interchangeably in this study to mean the measurement of and reporting on the social performance of a business enterprise. It was also concluded that corporate social responsibility accounting should seek to provide useful information for both internal managerial decision-making and external accountability purposes. However, this study will attempt to develop methods for external social reporting since the researcher believes that the internal social reporting will not be fully implemented unless external social reporting is required by law. It was further concluded that accountants should not measure and report social impacts because the identification and quantification of such social impacts are almost impossible. Accountants should only measure and report a company's efforts in the areas of social responsibility performance.

Moreover, a comparison between social responsibility accounting and human resource (asset) accounting was made in this section. It was concluded that the two topics are quite different. Thus, human resource (asset) accounting is not included in this study within the scope of corporate social responsibility performance accounting.

In the third and final section of this chapter, several approaches for measuring and reporting a company's social performance were presented. These approaches range from simple, totally subjective, verbal approaches to complex, totally financial, approaches. These approaches were categorised into four groups: (1) the inventory approach, (2) cost or outlay approach, (3) programme management approach, and (4) cost-benefit approach.

The inventory approach merely discloses in narrative form the social activities undertaken by a business firm. The "Social Action Report" included in the 1972 Annual Report of Scovill Manufacturing Company (U.S.A.) was presented as an example of using the inventory approach for reporting the social performance of a business company.

The cost approach reports the costs involved with a firm's social performance. Under this approach, the non-monetary measures can be included in reports in addition to monetary measurements. Three forms for reporting the costs of a company's social performance were discussed. These forms include the Dilley and Weygandt's Social Responsibility Annual Report, Linowes's Socio-Economic Operating Statement, and Kastenholz's Statement of Social Responsibility Costs.

The programme management approach requires disclosure of the costs incurred in each activity or programme undertaken by a firm along with a statement of whether the objectives of the programme have been met. This approach has been pioneered by the Bank of America. The Social Responsibility Programme Statement suggested by Brandon and Matoney was presented as another example of using the programme management approach for disclosing a firm's social performance.

The cost-benefit approach is the final group under which the costs and benefits of corporate social programmes must be measured and reported. Abt's Social Balance Sheet and Social Income Statement, Seidler's Social Income Statement, and Estes's Social Impact Statement were described as three proposed forms using the cost-benefit approach for reporting a company's social performance.

After reviewing these approaches, it was concluded that the inventory approach is the least informative method and it can not be effectively used as the basis of comparisons among companies. It was also concluded that the formulation of specific objectives for social responsibility programmes in the programme management approach, and the measurement of the benefits, in the cost-benefit approach, are both difficult to achieve at this early stage of development of corporate social responsibility accounting. Accordingly, it was suggested that the cost or outlay approach is the appropriate method to be employed in this study.

The next chapter will be devoted to cost concepts of corporate social responsibility accounting. Afterwards, methods of measuring and reporting the costs of corporate social activities will be suggested in Chapter VI.

CHAPTER V

COST CONCEPTS OF CORPORATE SOCIAL RESPONSIBILITY ACCOUNTING

Social Costs

Most of the writings which have adopted the cost approach to corporate social responsibility accounting concentrate primarily on the transfer of social costs from the public to the private domain. Viewed from the perspective of conventional economic theory, it seems sufficient to aim at internalising the social costs into the cost accounts of the individual company. By holding the individual company responsible for the full costs caused by its economic activities, it may be supposed that the social costs will be eliminated or at least kept under reasonable control. This principle of internalisation of social costs into private costs has led economists to suggest some indirect methods designed to avoid these costs. These methods include the levying of taxes on companies whose productive activities give rise to social costs, of penalties according to the volume of social costs, or of offering incentives (e.g. tax reductions or subsidies) to companies in order to persuade them to be more socially responsible.

However, the analysis of social costs associated with corporate social responsibility performance raises important problems of definition, measurement and reporting, since the term "social costs" as used by economists is different from the way in which the term should be used by accountants in the area of corporate social responsibility accounting. Accordingly, some explanation appears to be necessary.

1. Economic Theory of Social Costs

The Nature and Problems of Social Costs

Classical economic theory, which dates back to 1776 when Adam Smith published his book "The Wealth of Nations",[1] suggested that the pursuit of profit by individual firms within a laissez-faire framework would maximise social welfare. This theory maintains that natural laws governing economic affairs ensure that the firm's self-interest coincides with public welfare. In his drive for maximum profits, the businessman is guided by an "invisible hand" to promote the public interest through the functioning of competitive market forces.[2] Market forces would compel each firm to produce efficiently, to offer products demanded by the public at prices which covered costs and profits just sufficient to keep it in business and would ensure that inefficient firms were driven out of the industry. If markets are highly competitive and consumers and producers are rationally trying to reach a maximum level of satisfaction, then the available resources will be allocated in a way which maximises social welfare.

Thus, given a market system and perfect competition among business firms, prices will provide automatic socially valid guidelines for investment and production. The role of government, according to the classical economic theory, is merely to see that the system is not clogged up by monopoly, deception or other practices which should be illegal. The allocation process almost automatically will ensure that the needs of society are met at a minimum cost with an increasing output, and will allow the economy to maintain an equilibrium somewhere near full employment.

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[1] See: Adam Smith, "An Inquiry into the Nature and Causes of the Wealth of Nations", (New York: Modern Library, 1937). First published in 1776.

[2] Ibid., p.423

However, the problems of relying on Adam Smith's 'invisible hand' to ensure social welfare within a laissez-faire framework are now well known, even if the economy is perfectly competitive. These problems arise mainly because of the existence of high levels of unemployment, disparities in income and employment prospects and threatened elements of the environment. Naturally, these problems are even more severe in imperfect market structures which characterise many areas of British industry.[3] Consequently, the 'invisible hand' must be assisted by governmental intervention. Government should intervene in the market in cases where social welfare and the company's self-interest diverge, and so ensure social well being.

In the normal market system, the economic activities of business firms frequently have significant effects on others of which no account needs to be taken by the firms responsible for them. Moreover, inasmuch as the benefits conferred and the damages inflicted on other members of society in the process of producing, or using, certain goods do not enter into the calculation of the market price, one can no longer take for granted that the market price of a product is an index of its marginal value to society. Indirect effects of such nature are considered in welfare economics under various labels such as "neighbourhood effects", "third party effects", "spillover effects", "side effects" and more clearly "externalities".

By externalities one means those costs (external diseconomies) and benefits (external economies) which accrue to a third party, or to society as a whole, from a company's economic activities and are not reflected in the market price, hence they are not accounted for

[3] See: Eleanor J. Morgan, "Social Responsibility and Private Enterprise in the United Kingdom", National Westminster Bank Quarterly Review, May 1977, pp.55-67

or internalised in the company's books of account. These externalities may be positive (external economies or social benefits), or negative (external diseconomies or social costs). The positive externalities were first introduced in welfare economics by Alfred Marshall in 1890.[4] Marshall argued first, that equal sums of money do not measure equal utilities to all concerned because of the inequalities in the distribution of income and wealth. In the second place, Marshall pointed out that, because of the decreasing costs, the increased supply at a much lower price would consequently increase the consumer's surplus.

Positive externalities, or social benefits, also exist when a company undertakes socially responsible activities to enhance the well being of society or one of its elements. For example, if a company makes a net investment in recruiting, hiring and training disadvantaged workers (perhaps a racial minority, disabled or former convicts) rather than drawing from a more restricted labour pool, then the disadvantaged workers, as well as their families, communities, government (through personal income tax collections and perhaps reduced welfare payments), and even subsequent employers, may all benefit from this socially responsible action. These social benefits are not reflected in the company's books of account.

On the other hand, negative externalities, or social costs, are associated with the corporate socially irresponsible behaviour. Pollution of the environment would be a useful current example of such social costs or negative externalities. A manufacturing

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[4] Alfred Marshall, "Principles of Economics", (London: Macmillan and Co., 8th Edition, 1930), p.472.

company discharging some pollutants into a stream, even after the company has made some investment in pollution control, normally will not reflect (in its books and, therefore, profits and possibly dividends) the social costs associated with the remaining damage to the stream. However, 'costs' to society, which will always mean other individuals in society, may be incurred as far as downstream water users are concerned, for example, fishermen, household members, industrial water users, municipal water supply systems, and swimmers.

One of the reasons that negative externalities, or social costs of such a nature are not included in the cost function of business companies is because the market mechanism does not reflect these costs to society. Unfortunately, in the normal market system, there is no way to impose a satisfactory private charge for clean air and water or dirty air and water. But to society as a whole, air and water do have a value. Economists call this a social value.[5] Pollution of the air and water therefore is regarded as a wasting of that value.

Moreover, because of the "excludability property" which characterises social commodities like air and water, economists end up treating them as "free goods".[6] Clean air and water are not saleable commodities because once they are supplied to anyone, they are automatically available without payment to everyone else. There is no way to exclude anyone from using clean air and water because of

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[5] See: Marshall I. Goldman, "The Costs of Fighting Pollution", Current History, August 1970, pp.73-81, 110.

[6] For more discussion on the problems of free goods, see for example: Bruce Yandle, Jr. and Andy H. Barnett, "Henry George, Property Rights and Environmental Quality: Classical Answers to 'New' Problems", The American Journal of Economics and Sociology, October, 1974, pp.293-400.

failure to pay a price for them. But, anything that is free is usually consumed with no concern for the future or the amount left over. Moreover, no one individual may feel responsible for maintaining these social resources. The result is that air and water and some land facilities may become polluted. In addition, everyone tries to shift the social costs of dirty air and water to society as a whole.

Furthermore, in a competitive market system, business companies generally find the maximum selling prices of their products to be fixed by the market. Thus, in maximising profits, the emphasis at the corporate level will be placed on the minimisation of costs. Therefore, the higher the profit motivation, the greater the probability that social costs will be generated. The immediate result is that, since all the costs of production (private internal costs and social external costs) are not accounted for, products sold in the market are actually underpriced, and in theory, will stimulate consumption. The net effect, therefore, is a misallocation of productive resources among industries, and hence the maximum social welfare will not be achieved.[7]

Consider, for example, the case of a paper mill which, in the process of manufacturing its products, permits harmful pollutants to enter a nearby river.[8] Suppose also that there are two other activities downstream. The first is a fishery and the second is a city water purification plant. Assume further that because of the

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[7] See: E.J. Mishan, "The Costs of Economic Growth", (Middlesex, England: Penguin Books Ltd. 1967), especially pp.82-86.
Also see: James S. Cook, Jr., Lewis F. Davidson and Charles H. Smith, "Social Costs and Private Accounting", ABACUS, December 1974, pp. 87-99

[8] The example is an adaptation of one presented by Sanford Rose, "The Economics of Environmental Quality", Fortune, February 1970, p.120

paper mill's pollution, the fishery incurs added costs (of water purification and product quality testing), and the water purification plant also incurs added costs of water processing. Because the paper mill can avoid the costs of maintaining the river in a pollution-free state, the costs of paper production are artificially low. And in a competitive system, where prices are a function of production costs, the selling price of paper will also be understated. On the other hand, the price of fish will be overstated because consumers of fish are subsidising, to some degree, the production of paper. In addition, the price of water to city residents (in the form of water bills as well as taxes) will also be overstated as users of water subsidise the users of paper. The result in a competitive economic system is that society will get relatively too much consumption of paper and too little consumption of fish and water. In other words, the available productive resources are misallocated from society's point of view.

In short, because of the existence of negative externalities (social costs), the market mechanism operating through profit incentives will not lead to a position of maximum social welfare. On the contrary, it will coincide with a disruption of the natural and social resources.

Definition of Social Costs

The term "social costs" is used in economics as a synonym for "negative externalities", "external diseconomics", "bad effects" or "unpaid costs" of private economic activities, which are not accounted for or "internalised" by private business companies. The concept of social costs was raised by John Stuart Mill as far back as 1848 when he proposed a list of grounds for public action entitled, "Grounds and Limits of Laissez-Faire".[9] In the context of the industry of his day, Mill had not mentioned social or unpaid costs so explicitly. However, he had cited some examples; for instance the need for regulation of factory hours by the government, especially in the case of women and children.[10] Nevertheless, social costs or "unpaid costs" of industry were dealt with explicitly in 1926 by John Maurice Clark.[11] Clark had analysed the proper grounds for public action under strict individualism and listed fourteen categories including "unpaid costs" of industry. Clark's list of grounds for public action is similar to Mill's, but the explicitness by which the unpaid costs of industry were recognised in Clark's work is a measure of social problems revealed by the development of the industrial economy since 1848 when Mill's work was first published. Clark defined social costs as follows:

> "Such costs occur wherever there are interests which the general system of legal rights does not cover - interests which can be evaded without consent or compensation. Real estate values may be damaged as we have seen, by nuisances or merely by incongruous uses of the joining property ... if the remedies available to the common-law system are inadequate to the purpose (this is true of injuries to the public health). Or the individual may, through sheer lack of bargaining power, be unable to translate his technical legal protection into actual economic protection of an effective sort ... In the broadest sense, any general evil resulting from industry has such diffused effects as to fall on innocent parties without compensation, and so comes under this principle. Damages of this sort also occur in the use of the air and the ether, and the spread of infections and agricultural pests. The State has an interest in minimizing all such evils."[12]

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9 John Stuart Mill, "Principles of Political Economy", (London: The Colonial Press, 1900), Vol.1, p.464. First published in 1848.

10 Ibid., p.464

11 John Maurice Clark, "Social Control of Business", (Chicago, Illinois: University of Chicago Press, 1926).

12 Ibid., p.178

Clark had suggested that private companies should be accountable for all costs, including social costs, incurred by them. He therefore called for a system of corporate social accounting by saying:

> "Social accounting is an unfamiliar conception, but the thing it describes has a very real existence. The principles of uncompensated costs, of unpaid services, of unused capacities and of conservation, all involve a revising of the market's reckoning of costs and values in the light of a fuller social accountancy."[13]

However, the most serious attempt by an economist to integrate the concept of social costs into economic theory occurred in A.C. Pigou's book "The Economics of Welfare", published in 1920.[14] Since Pigou was concerned with the optimisation of resource allocation, he used a marginal approach to explain how social costs arise in economic terms. In Part II of "The Economics of Welfare", A.C. Pigou defined social costs as the divergence between "marginal social net product" and "marginal private net product".[15] He defined marginal social net product as being:

> "... the total net product of physical things or objective services due to the marginal increment of resources in any given use or place, no matter to whom any part of this product may accrue".[16]

And marginal private net product was defined as being:

> "... that part of the total net product of physical things or objective services due to the marginal increment of resources in any given use or place which accrues in the first instance - i.e. prior to the sale - to the person responsible for investing resources there.[17]

Pigou confined his definitions to "physical things or objective

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[13] Ibid., pp. 180-181

[14] A.C. Pigou, "The Economics of Welfare", 4th Edition, (London: Macmillan and Company, 1960). First published in 1920.

[15] Ibid., pp.134-135

[16] Ibid., p.134

[17] Ibid., pp.134-135

services" which precludes consideration of intangible benefits.[18] He cited the example of sparks from railway engines causing fires on farmer's lands abutting the railway tracks. Thus, the marginal net private product of the railroad would be calculated excluding the costs of the crop damage. The marginal net social product would be less if it included the cost of the crop damage. This divergence between net private product and net social product of the railroad would be a social cost.[19] Pigou suggested that simply leaving this situation to be resolved by the market mechanism will not yield an optimum solution. There will be no incentive for the railroad to eliminate the sparks from being emitted. He believed that state action is required to maximise the social welfare. This state action may take the form of grants to, or taxes on, private industry.[20]

But, Pigou's concept of social costs remained a theoretical abstraction until K. William Kapp published his "Social Costs of Private Enterprise" in 1950.[21] Kapp documented the social effects of corporate economic activities. His basic thesis was that the maximisation of net income by business companies is likely to reduce the income or utility of other companies and of society at large.

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[18] Pigou's concern was with the "national dividend", and he therefore excluded consideration of the "physical consequences" of economic activity. But he recognised the existence of intangibles. Ibid., p.134. Also see:
- D.W. Pearce and S.G. Sturmey, "Private and Social Costs and Benefits: A Note on Terminology", The Economic Journal, March 1966, pp. 152-158

[19] Pigou used the term "uncompensated disservices" to describe this situation. (See A. C. Pigou, op. cit., p.184).

[20] Ibid., p.224

[21] K. William Kapp, "The Social Costs of Private Enterprise", Revised Edition, (New York: Schocken Books, 1975). First published in 1950.

Social costs, as defined by K. William Kapp, cover:

> "... all direct and indirect losses suffered by third persons or the general public as a result of private economic activities. These social losses may be reflected in damages to human health; they may find their expression in the destruction or deterioration of property values and the premature depletion of natural wealth; they may also be evidenced in an impairment of less tangible values."[22]

According to Kapp, the social costs of business enterprises are considered to be mainly the following:[23]

1. The social costs resulting from the impairment of the human factor of production.
2. The social costs of air pollution.
3. The social costs of water pollution.
4. The social costs of depletion and destruction of animal resources.
5. The social costs of premature depletion of energy resources.
6. The social costs of soil erosion, soil depletion, and deforestation.
7. The social costs of technological change.
8. The social costs of unemployment and idle resources.

This concept of social costs, advanced by Kapp, is comprehensive enough to include even certain "social opportunity costs", that is, "those social cost elements which take the form of wastes or inefficiencies of various kinds".[24] It further includes the social losses which are intangible in character.[25] However, to eliminate or repair social losses caused by private production, or to reduce them to a minimum, Kapp suggested the internalisation of social costs into private costs of production by making private producers as fully accountable for them as possible. Thus, he called for some kind of quantitative measurement of the social costs of production.[26]

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22 _Ibid._, p.13

23 _Ibid._, pp.47-170

24 _Ibid._, p.14

25 _Ibid._, p.21

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Currently, the concept of social costs is dominating theoretical welfare economics. E. J. Mishan, for example, gave mathematical structure to the arguments presented verbally by Pigou and others. The ideas of welfare economists such as Mishan enlarged the general scope of solutions to the problem of social costs.[27]

In sum, social costs may be defined as those costs which are generated by a company's economic activities and borne by a third party, or by society as a whole, not by the company responsible for generating them. In order to be recognised as social costs, those costs must have three main characteristics:

1. It should be possible to avoid them as they do not or cannot go through the market.

2. They are generated by a productive activity and shifted to a third party or to society at large.

3. Thus, business companies, in the pursuit of private profits, will not voluntarily take account of such costs in their deliberations.

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[27] See: E.J. Mishan, "Reflections on Recent Developments in the Concept of External Effects", Canadian Journal of Economics and Political Science, February 1965, (Survey Article), pp.3-34, "Pareto Optimality and the Law", Oxford Economic Papers, November 1967, pp.255-287, and "The Postwar Literature on Externalities: An Interpretative Essay", Journal of Economic Literature, March 1971, pp.1-27

For a more rigorous explanation of social costs, see for example:

- R.H. Coase, "The Problem of Social Cost", The Journal of Law and Economics, October 1960, pp.1-44

- Ralph Turvey, "On Divergence Between Social Costs and Private Costs", Economica, August 1963, pp.309-313

- Paul Burrows, "On External Costs and the Visible Arm of the Law", Oxford Economic Papers, March 1970, pp.1-17, and "The Firm and Its Environment: An Economist's View", Journal of Business Policy, Spring 1971, pp.43-48

- Boyd Collier, "Measurement and Environmental Deterioration", (Austin, Texas: Bureau of Business Research, The University of Texas at Austin, 1971), especially pp.39-76

Internalisation of Social Costs

Theoretically, to eliminate the occurrence of social costs, or at least to minimise their harmful effects, these costs should be borne, or paid for, by the business company which is responsible for generating them. In other words, social costs should be accounted for or internalised into private costs of doing business. When the private marginal costs pricing rule is changed to a social marginal cost pricing rule, then a social optimum will be reached through this internalisation of the social costs.

Mishan distinguishes between two ways of internalisation.[28]

1. Either the firm reduces outputs until 'the social value'[29] of the product is raised sufficiently to reach its marginal cost of production; or

2. the market price may be left unchanged and instead transform the private marginal cost into social marginal cost by adding to the private marginal cost the value of any incidental damage inflicted on the rest of society in the production, or final use, of the product in question.

The principle here is to attach a monetary value to damages inflicted on other parties, or on society as a whole and to thereby bring them within the scope of the market pricing rule. While this principle theoretically seems to offer a direct economic solution to the avoidance of social costs of industry, practically it poses considerable difficulties. These difficulties arise mainly from the fact that some sorts of social costs, as will be seen later in

[28] E. J. Mishan, "The Costs of Economic Growth", op. cit., p.83

[29] The social value of a good is the value remaining after subtracting from its market price the estimated value of the damage inflicted on others by producing and/or using the good. (Ibid., pp. 83-84).

this chapter, are often impossible to quantify in monetary terms, and can seldom even be estimated from the information available within a business company.

Another market-type solution to the internalisation of social costs was suggested by R.H. Coase in his famous article "The Problem of Social Cost", published in 1960.[30] Coase believes that the internalisation of social costs can be achieved through a market agreement or bargain, assuming that the law permits rights to be altered by agreement between the interested parties. Where a company imposes damages on another company and no bargaining costs are involved, the two companies will bargain in such a way that the damages will be minimised and the total output of the two companies taken together will be maximised.

This conclusion is based on the fact that every case involving social costs should be considered separately by each company with the affected party, and that the harmful effects caused by one company's activities are not the only effects to be considered in attempting to minimise the costs to society and hence the maximisation of social welfare. Considering the same example Pigou used, Coase argues that the sparks from railway engines may be damaging a neighbouring farmer's crops, but society may be better off because there is a surplus of crops and a scarcity of transportation activities. It is necessary to look not only at the damage to the farmer's crops, but also at the damage to society if the railway company is forced to curtail its activities. The best way to solve the social cost problem, according to Coase, is that all

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[30] R. H. Coase, "The Problem of Social Cost", op. cit., pp.1-44

involved in the social cost (the railway company and the owners of the neighbouring land in this example) should negotiate a fair settlement between them.[31]

In practice, however, there are a number of serious obstacles to this market-type solution of bargaining. These obstacles include:

1) Bargaining costs. The cost of identifying and reaching agreement with other parties involved in the social cost problem will be higher the larger the group involved on either side of the bargain. Such costs reduce the net return to a bargain and add the problem of a reduced incentive to seek a bargain given the uncertain eventual commitment to cover the costs of the bargain.

Coase admits that there are costs of bargaining when he says:

> "... But unless this is the arrangement of rights established by the legal system, the costs of reaching the same result by altering and combining rights through the market may be so great that this optimal arrangement of rights, and the greater value of production which it would bring, may never be achieved."[32]

2) Large numbers. When the group on either side of the bargain is large, the difficulties of reaching an agreement acceptable to all are increased. Moreover, individual members of the group may have a strong incentive not to participate in the bargain in the expectation that their action will not reduce the probability of a bargain being reached to their benefit.

3) Legal obstacles. In practice, the law in Britain often does not provide readily negotiable settlements of rights, so that if a

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31 Ibid., pp.3-8. For a similar point of view, see also:
- Ralph Turvey, "On Divergence Between Social Costs and Private Costs", op. cit., pp.309-313

32 R. H. Coase, op. cit., p.16

dispute over a social cost reaches a court the scope for subsequent rearrangements of rights may be severely limited.[33]

4) Information. People may not know they are being affected (for example, the damage to human health as a result of occupational diseases may remain hidden for considerable periods of time during which the persons affected are unaware of the losses they sustain), or who is affecting them (e.g., the effect of one company's effluent on a polluted river). The costs of obtaining information on social costs may be prohibitive for individuals. Also, the corresponding returns of such costs are highly uncertain.

5) The measurement difficulty. Even in situations where people can know they are being affected and who is affecting them, some means of measurement is needed as the basis for the bargain. In most cases of social costs, as will be shown later, measuring the value of damages is a very difficult, if not impossible, task.

Accordingly, the bargaining solution does not really offer a practical and effective solution to the problem of social costs. Most economists, therefore, see the necessity of government intervention, particularly where large numbers are affected. Government intervention could take one, or more, of several forms. It is not possible to discuss each of these forms in detail, but some general characteristics can be pointed out.

a) Taxation:

Originally advanced by Pigou,[34] the tax proposal represents an attempt to force a business company to take into consideration, in

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[33] See: Paul Burrows, "Nuisance: the Law and Economics", Lloyds Bank Review, January 1970, pp.36-46

[34] A.C. Pigou, op. cit., p.224

making decisions, the social costs that would result from its economic activities. Taxes would act as surrogate prices for social costs and the market mechanism can then function properly. The objective of taxation is to impose on the company a tax equal, for any level of output chosen by the company, to social costs generated by productive activities. Moreover, the tax yield should be used to compensate the other companies, or individuals, affected.

The crucial point is that the tax assessment must be based on actual damages to society, or one of its elements, not on what it would cost the company to prevent the occurrence of these damages. If the tax levied on the damaging company is greater, or less, than the costs of damages it creates, then the maximum social welfare will not be achieved. Evaluation of the actual damage to society is, therefore, a very important step if the taxation system is to be effective. Herein lies the problem of measurement. In addition, the taxation system requires a costly and complex administration for the identification and quantification of social costs involved. Indeed, the information required to set the tax system at optimum levels is not currently available on a comprehensive and systematic basis, and would have to be acquired through experimentation. Therefore, it would seem to be impossible for the government to devise such an effective and practical taxation system that will maximise social welfare.

b) Licensing:

Another form of government intervention to indirectly solve the problem of social costs is licensing. The objective here is not to totally eliminate a particularly socially undesirable action by individual companies, but rather to limit the total number of such actions by the business community as a whole while at the same time allotting the limited allowable number of actions to individual companies in an optimal manner. In other words, the aim would be for government to set the total number of actions allowable to business companies and for the market mechanism to allocate this total to individual companies.

In the United States of America, unlike Britain, this method has for years been used for abating environmental pollution, and has more recently even been advocated for limiting population.[35] The imposition of a charge on sulphur oxide emissions, for instance, was announced in the U.S. Presidential Message to Congress on 8th February, 1972. This charge, to operate as from 1976,

> "is an application of the principle that the costs of pollution should be included in the price of the product. Combined with our existing regulatory authority, it would constitute a strong economic incentive to achieve the sulphur oxides standards necessary to protect health, and then further to reduce emissions to levels which protect welfare and aesthetics."[36]

However, the licensing method has been called a "licence to pollute", or a "licence to break rules", and impossible to enforce.[37] In one sense, licensing is a special case of the taxation method. Government must still determine the social costs resulting from economic activities of business companies in order to determine the appropriate number of total licences to issue. The imposition of

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[35] See: Bruce M. Russett, "Licensing: For Cars and Babies", Bulletin of the Atomic Scientists, November 1970, p.15. Also see:

- James E. Parker, "Accounting and Ecology: A Perspective", The Journal of Accountancy, October 1971, pp.41-46

[36] As quoted in: Wilfred Beckerman, "Pricing for Pollution", Hobart Paper No.66, (London: The Institute of Economic Affairs, 1975), p.48

[37] See: Tom Alexander, "It's Time for New Approaches to Pollution Control", Fortune, November 1976, pp.128-131, 230, 232, 234.

charges on sulphur oxide, for example, would be a matter of measuring the sulphur content of the fuel burned and the removal efficiency of cleaning devices; the damage caused to human health, welfare and aesthetics; and the social costs of such damages. Hence, the problem of measurement and unavailability of the relevant economic data remain the same as that discussed above under the taxation approach. Even if a charge is imposed, the polluter often finds it economically advantageous to pollute. His private costs plus the charge are usually still less costly to him than if he had to clean up the pollution himself.

c) Prohibition:

A third form of government intervention is prohibition. The government, through statute law, or the judiciary, through common law, can simply ban socially undesirable actions, either partially or totally. The total prohibition may force business companies to introduce alternative production techniques or preventive devices which would eliminate the social costs while ensuring that they are still making satisfactory profits.

However, total prohibition suffers from the obvious disadvantage that it may bring about sub-optimal levels of output.[38] The output level zero is not preferable, in terms of the efficiency of resource use, as it causes a loss of potential welfare to society. An alternative is to impose a partial prohibition limiting output to a certain level. Ideally, the limit would be the "social optimum".[39] Whether a partial prohibition is preferable to a total prohibition depends on whether the socially optimal output level can be practically and properly identified and used as the limit.

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[38] See: Paul Burrows, "The Firm and Its Environment: An Economist's View", op. cit., p.46

[39] The "social optimum" can be defined as the point at which (across each interface between business and society) society is gaining at

There appear to be formidable obstacles to the identification and measurement of such socially optimal output levels.

In Britain, this form of government intervention, that is prohibition, seems to be the preferable approach for solving the problem of social costs. This is evidenced by the passage of anti-discrimination legislation, health and safety at work law, anti-pollution legislation, and consumer protection legislation. The aim of these legislations is to force business companies to internalise some of the social costs into private costs of production. Both approaches, total prohibition as well as partial prohibition, are used in controlling social costs through legislation. For example, discrimination on the grounds of sex, colour, or national origin, is totally prohibited by legislation. On the other hand jeopardising employee safety and consumer safety are partially prohibited by the law as there are safety standards to be followed by each industry. Further, the use of the "best practicable means" for preventing the environmental pollution makes pollution partially prohibited by anti-pollution legislation.

d) Tax incentives and subsidies:

A final form of government intervention is through tax reduction and subsidies.[40] The objective would be for the government to encourage business companies, through tax incentives and cash subsidies, to voluntarily undertake socially responsible actions which would reduce social costs and increase benefits to society. In short, the objective is for government to 'buy' the corporate social performance.

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[40] For more discussion on this approach, see for example:
- Robert Feinschreiber, "Federal Tax Incentive for Pollution Control", The New York Certified Public Accountant, October 1970, pp.803-808

A business company should get tax reductions equal to the reduction in social costs, and cash subsidies equal to the social benefits it creates. But, for the company to determine what socially justified activities it should undertake, those social costs and benefits must be empirically identifiable and measurable.

From the government's point of view the question is, as always, is the social gain worth the outlay? To judge whether, for instance, a given cash subsidy is too great or too small, identification and measurement of social costs and benefits are ultimately necessary. Social performance of a business company may be bought, in the end, at too great a cost to the government. Thus, some means of identifying and measuring the social costs and benefits should be devised first before any system of tax incentives and subsidies is created. However, the problem of measurement makes this approach practically unworkable.

To sum up, economists agree in principle, that the solution to the problem of social costs lies in trying to internalise social costs into private costs of production. The market mechanism can then properly allocate productive resources, provided that the social costs can be properly identified and quantified. Doubts about the effectiveness of market-type solutions have led to proposals for government intervention. Government intervention may be through taxation, licensing, prohibition, or a system of tax incentives and subsidies. The problems with all these approaches, for the internalisation of social costs are practical in nature. These problems stem mainly from the difficulty, if not impossibility, of measuring social costs.

However, the following section will discuss the problem of measuring social costs. A pragmatic accounting approach will then be offered for accountants to overcome this problem in accounting and reporting corporate social responsibility performance.

II Accounting and Social Costs

The Problem of Measurement

Most authors seem to agree that it is not possible to attach monetary values to the negative externalities (social costs) caused to third persons or the general public by a company's economic activities. The economists' attempts to evaluate social costs in money terms, and so to bring them within the scope of economic analysis, have not so far been successful. Among the reasons may be the following:

Firstly, some categories of social costs, manifestly important ones, cannot be measured in financial terms. Pigou has made it clear that many of the social costs generated by productive activities cannot "be readily brought into relation with the measuring rod of money".[41]

Also, the chain of causality might be very complex. As an example, "Air pollution is not only the result of, and not proportionate to the volume of production and the emissions of residual waste products, it is also governed by the interactions of a whole series of variables which may react upon one another".[42]

Secondly, the problem of measurement is further complicated by the 'intangible' nature of many of the most serious consequences of social costs, such as damage to human health; destroying the aesthetic values of the environment (bad smell, noise, impairment

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[41] A.C. Pigou, "The Economics of Welfare", op. cit., p.183

[42] K. William Kapp, "Environmental Disruption and Social Costs: A Challenge to Economic Theory", Kyklos, December 1970, pp.833-848, p.836

of landscape); the impairment of the recreational values of rivers, lakes and coastal waters; and the destruction of wild life. For example, the social costs of injuries, illness, and death which would result from industrial accidents and occupational diseases cannot and should not be valued in terms of money. Human life and good health are invaluable, and any attempt to measure them in financial terms is therefore crassly degrading, if not unethical.

Thirdly, an additional difficulty is that quite often there is a considerable time-gap between the occurrence of social costs and their effect on human health. As an example, the slow deterioration of a worker's health as a result of occupational diseases may not be noticed for a long time, until perhaps he has retired or sought other employment. As another example, mercury pollution of waters affects first only the algae, then the fish consuming the algae, and only then the humans consuming the fish. Thus, the worst effect on human health may not occur for several years after the emission of the mercury.

Fourthly, there are difficulties both of concept and measurement in attributing to a specific business company, or even to any single sector of the economy, a variety of social costs which depend for their effect upon complementary economic activities. For example, in a highly industrialised area, many social afflictions such as industrial noise, dirt, stench, ugliness, urban sprawl, and other features that jar the nerves and impair the health of many are difficult both to measure and to impute to any single source.[43]

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[43] See: E. J. Mishan, "The Costs of Economic Growth", op. cit., pp. 83-84

Fifthly, even though measurable, the consequences of social costs may be so largely dispersed that accurate and adequate economic data are difficult to obtain.

Sixthly, social costs depend for their measurement on the magnitude of the perception and awareness of the social issue in a particular society. It is ... "a matter of social evaluation, i.e., the magnitude of the social costs depends upon the importance which organized society attributes to both tangible and the intangible values involved".[44]

The difficulties of measurement become more apparent when very little is known about the harmful effects of some socially undesirable actions, either in the short-term or in the long-term. In the case of environmental pollution, for instance, there are many pollutants, presented in different concentrations, caused not only by economic activities but also by natural factors. Unfortunately, however, the significance of these pollutants and their effects on human health remain unclear.[45]

Seventhly, the problem of measurement is more compounded when one considers the case of reciprocal externalities. The complex problem of assessing the value of reciprocal externalities has been discussed distinctly by Otto A. Davis and A. Whinston.[46] A reciprocal externality occurs if firm A imposes an externality which gives rise to the costs for firm B, when firm B carries on a produc-

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[44] K. William Kapp, "The Social Costs of Private Enterprise", *op. cit.*, p.21

[45] See: Jan-Erik Gröjer and Agneta Stark, "Social Accounting: A Swedish Attempt", *Accounting, Organizations and Society*, Vol.2, No.4, 1977, pp.349-386, p.354

[46] Otto A. Davis and A. Whinston, "Externalities, Welfare and the Theory of Games", *The Journal of Political Economy*, June 1962, pp. 241-262

tion process which creates another externality which raises the costs of firm A. Reciprocal externalities are likely to lead to a merger of the two firms because neither firm can reach a maximum profit without dependence on the other.

Finally, the fact that many of the social costs are interrelated adds to the difficulties of measurement and computation. This relationship among social costs implies that any attempt to reduce one social cost may increase another social cost. The substitution of oil and gas for coal for power generation is an example of this interrelationship.

When burned, oil and gas give off less particulate matter and hydrocarbons than does coal. Moreover, nitrogen oxides are not emitted at all when oil and gas are burned, whereas coal consumption emits this air pollutant. On the other hand, oil and gas give off a greater amount of sulphur oxides than does coal.[47] Thus, the act of eliminating obvious air pollution may cause other polluting effects which may be, in total, more serious than those which are eliminated.

Furthermore, the pollutive effects of manufacturing are often corrected by the installation and operation of energy-consuming air scrubbers or other types of pollution control equipment. The protection of the environment is, therefore, achieved at the expense of the energy conservation goal.

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[47] See: Steven C. Dilley, "The Impact and Importance of Social Audits", The Internal Auditor, September/October 1975, pp.19-28, p.24. Also see:
- R. C. Scrivener, "Cautions on Social Accounting and Responsibility", CPA Journal, January 1974, pp.17-19

For these reasons, accountants have no way of determining with precision the social costs of the damages and losses caused to society by a company's economic activities. To evaluate these social losses in terms of money would mean the introduction of highly subjective value judgements into the financial accounts and would make the conclusions derived therefrom equally subjective, arbitrary and inaccurate. Indeed, this will undermine the value of accounting information systems and cause the users of corporate reports to distrust everything in the accounts.

Therefore, the 1973 Report of the Committee on Environmental Effects of Organisational Behaviour of the American Accounting Association believed that the full social costs associated with environmental pollution could not be measured adequately by individual companies at the present time; nor would they be likely to report them, even if they could be measured. The report concluded that:

> "... at the present time, public accountants should not attempt to measure and report the total social costs of damage to the environment as a result of organizational behavior."[48]

However, it is not reasonable to argue that because accountants, and economists alike, have so far failed to find a means of social evaluation in accounting, that any further research or attempt to provide this information should not be undertaken. Certainly, the nature of negative externalities makes it hard to determine costs to society, but this is no excuse for leaving these social costs

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48 The American Accounting Association, The Committee on Environmental Effects of Organization Behavior, "Report of Committee on Environmental Effects of Organizational Behavior", The Accounting Review, Supplement to Vol. XLVIII, 1973, pp.73-119, p.98

unrecognised in the company's books of account. The solution has to be a compromise between the highly theoretical approach of measuring the costs of damages and losses caused to society by a company's activities and no measurement at all for practical reasons.

From a practical standpoint we need to find the 'second best' means for the measuring of social costs which meets the theoretical demands while the measurement is still practicable and sufficiently objective. A method complying with one important theoretical demand - the minimisation of the negative externalities by means of the internalisation of social costs - is described below.

A Practical Approach for the Measurement of Social Costs:

In proceeding to outline a practical system of accounting for corporate social responsibility performance, an approximate, often pragmatic approach which meets the theoretical requirements only in some respects, has to be adopted. Like most economists and accountants, the researcher believes that the social cost of damages inflicted on society by a company's economic activities cannot be measured precisely. What can be measured, however, at the corporate level, is the cost of avoiding the occurrence of these damages, that is, the cost of prevention. In the case of environmental pollution, for instance, the typical question would be: "What is the cost to society of air and water pollution resulting from a company's economic activities?" This is a very difficult question in the abstract. But it would be less difficult to answer if put this way: "What will it cost the company to stop all of its air and water pollution?" Then, the measurement of the social cost of air and water pollution at the company level could be approximated by the cost of pollution prevention.

This approach is based on the assumption that the more that is spent by the company on prevention the smaller is the harm caused to society. In other words, the more costs of prevention would be closer to the social costs of irresponsible actions. The logic of this assumption is very simple. It can be expressed in terms of equations. The following equation can be obtained.

$$TC_S = KC_S + UC_S \qquad (1)$$

Where TC_S refers to total social costs to society of a company's productive activities; KC_S to those costs which are actually compensated or paid for by the company, (costs of using the factors of production in the company's productive activities); and UC_S to external diseconomies or uncompensated social costs, (those social costs which are generated by the company and borne by a third party or by society at large).

Since compensated social costs (KC_S) are exactly equal to private costs of production, private costs can be substituted for compensated social costs in the equation. Thus, where Cp refers to private costs, the equation can be rewritten as follows:

$$TC_S = Cp + UC_S \qquad (2)$$

This equation shows that the total social costs are equal to private costs of production, (those costs which are usually borne by the company), plus external diseconomies, (those social costs which are borne by society). Private costs pose no problem at all as they are internal to, and paid for by, the company. These costs are normally included in the company's traditional cost accounting system. They comprise the direct and indirect costs of materials and labour used in the production process plus the general overhead expenses. The uncompensated costs, or external diseconomies, on the other hand, cause considerable problems and the emphasis here should be placed on them. Hence, equation (2) can be rephrased as follows:

$$TC_S - Cp = UC_S \qquad (3)$$

This equation manifests that the external uncompensated costs (UC_S) are represented by the difference between the total social costs to society and the private internal costs of production. However, it is a fact that the external unpaid costs (UC_S) to be minimised are equal to the prevention costs which may be spent by the company to eliminate some of the harmful effects on society plus the costs of the remaining damage which are shifted to society. Then, where NC_S refers to prevention costs, and EC_S to external costs to be borne by society, the following equation can be obtained:

$$UC_S = NC_S + EC_S \qquad (4)$$

Moreover, to eliminate the damaging effects of externalities completely, (i.e. EC_S = Zero), the company has to increase the costs of prevention. Thus, where ANC_S refers to the additional costs of prevention to reach the Zero level of external diseconomies borne by society, equation (4) can be re-expressed as follows:

$$UC_S = NC_S + ANC_S \qquad (5)$$

This equation presents that the additional costs of prevention (ANC_S) are actually substituted for the costs of external diseconomies (EC_S in equation (4)), which are completely eliminated to the Zero level. This means that it is assumed the more the company spends on prevention the less the costs to be borne by society. Furthermore, when the uncompensated costs (UC_S) are totally internalised and paid for by the company, there is no social harm at all to be borne by society.

In equation (2), if UC_S is substituted by $NC_S + ANC_S$, the equation can then be paraphrased as follows:

$$TC_S = Cp + NC_S + ANC_S \tag{6}$$

This equation, (equation (6)), demonstrates that only when the social costs of external diseconomies are completely internalised by the company into private costs of production, it is assumed that the total social costs to society of a company's productive activities become exactly equal to the total private costs including the traditional private costs of production, plus the normal costs of avoiding some of the harmful effects on society plus the additional costs to prevent the remaining damage of external diseconomies.

The problem with the assumption that the greater the cost of prevention the smaller the harm caused to society is that the harm done is often not proportional to the cost of avoiding it. For example, there are some pollutants which would do great harm if not prevented but where the prevention requires only relatively low cost. On the other hand, nitrate in water below a certain concentration does not do great harm, while its elimination at the source would be a very costly procedure. Moreover, as previously mentioned, most industries could get some improvement for modest costs in the early stages, but costs for controlling the last one percent of pollution are near-infinite and very uncertain. Thus, the cost of damages caused to society by a company's economic activities is often not exactly equal to the costs which might be spent by the company to prevent the occurrence of these damages. But perhaps the cost of prevention is a practicable first approximation of the cost of damages to society.

The cost of restoration, instead of the cost of prevention, could be another approximation of the social costs. Restoration costs are those costs incurred by a company to either restore some social resource to approximately its original condition or to create something to replace the social resource affected by the company's socially undesirable activities. An example would be the cost of restoring the quality of a river, or constructing a swimming pool to replace the river in its recreational use. As another example, the cost of restoring the land to its original condition at the end of operations in open-cast mining, or the cost of reafforestation in forestry. Also, the cost of developing alternative sources of energy to offset the rapid depletion of non-renewable energy resources, such as oil, natural gas and coal, could be another example of restoration costs.

However, the restoration cost concept seems to be far less justified in the measurement of corporate social responsibility performance costs than the prevention cost concept. The researcher believes that the prevention cost concept is preferable for three main reasons. The first reason is that almost without exception a preventive approach is better than a remedial approach. In reality, however, preventive action is in most cases preferable, not only because prevention is easier than curing, but also because, in general, prevention costs less than cures.

Another, and perhaps more important reason, is that the cost of restoration is a relatively vague concept, and in many cases it is not clear how it can be measured. For example, the quality of land or a river can be restored by a company at a certain cost, but what is the restoration cost of the noise caused by the company's operations?

The third, and equally important, reason, is that the restoration cannot make good all the damage inflicted on others by a company's economic activities. Some damages, such as lung cancer caused by air pollution or occupational diseases, cannot be restored at any cost. Moreover, there are the loss of life and the physical suffering incident upon work injuries for which there can be no compensation.

Thus, in most areas of corporate social responsibility, such as employee health and safety, environmental pollution and consumer health and safety, the restoration cost concept does not really solve the problem of measuring the social costs caused to society by a business company. The measurement of the money outlays required for the prevention of social damages at source would seem, therefore, to be a relatively more efficient and practically effective approach. Although outlays of this kind do not exactly measure the monetary value of social damages, they convey at least an idea of the cost at which it would be possible to eliminate and avoid the occurrence of these damages. Furthermore, the measurement of such outlays would reveal the financial burden which a business company might bear in order to perform its social responsibilities. Prevention costs are therefore a good practical approximation of the measurement of social costs.

However, in some other areas of social responsibility, where the social damage cannot be entirely prevented, the restoration cost concept should be applied, together with the prevention cost concept, in accounting for corporate social performance. For example, in the area of energy and natural resources conservation, the money spent on the development of substitutes or discovery of additional resources should be measured and reported as corporate social performance costs. Another example would be the measurement and reporting of the costs of land restoration in open-cast mining and the costs of reafforestation in forestry.

Justification of the Practical Approach

The criteria used to justify the practical approach, suggested above, and judge its appropriateness for corporate social performance accounting, will be the four basic standards set forth in A Statement of Basic Accounting Theory : 1966.[49] These standards include relevance, quantifiability, verifiability and freedom from bias.

Relevance:

It is essential that the first standard, relevance, be met, as it is the most important. Relevance requires that the information reported must bear upon or be usefully associated with actions it is designed to facilitate or results desired to be produced. Assumed informational needs of potential users are of vital importance in applying this standard.

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[49] American Accounting Association, Committee to Prepare A Statement of Basic Accounting Theory, "A Statement of Basic Accounting Theory" (Evanston, Illinois: The American Accounting Association, 1966), pp.7-13

Also see:

- Howard J. Snavely, "Accounting Information Criteria", The Accounting Review, April 1967, pp.223-232

- American Institute of Certified Public Accountants, "Statement of the Accounting Principles Board No.4", (New York: The American Institute of Certified Public Accountants, 1970), pp.36-41

- Accounting Standards Steering Committee, "The Corporate Report", A discussion paper published for Comments, (London: The Accounting Standards Steering Committee, July 1975), pp.28-31

- American Accounting Association, Committee on Accounting for Social Performance, "Report of The Committee on Accounting for Social Performance", The Accounting Review, Supplement to Volume XLXI, 1976, pp.38-69, especially pp.47-49

- Ralph Estes, "Standards for Corporate Social Reporting", Management Accounting, (U.S.A.), November 1976, pp.19-22, 26

The measurement and reporting of prevention costs should easily meet the standard of relevance. Instead of incurring costs to society and then trying to evaluate the alternatives for correcting them, it would be desirable for a company to operate in such a way as to avoid the occurrence of social costs. Once these social costs are identified, the only socially acceptable solution is to eliminate them. If these costs can be eliminated, the measurement of their value is no longer relevant. Moreover, the users of social information may need to know the efforts made by a company to prevent the occurrence of social costs, rather than knowing the value of social costs inflicted on society by the company. Thus, the preventive approach develops relevant information.

Quantifiability:

Quantification aids understanding and is thus an important characteristic of reported social information, especially when it can be achieved with acceptable reliability. Monetary expression may be desirable in quantifying social costs, since money is almost the only understood measure of value in economically developed societies.

The quantification of social costs has already been discussed above, and it has been concluded that social costs are impossible to quantify in money terms. It has also been concluded that the measurement of social costs can be approximated by the costs of prevention. The costs of prevention would, therefore, be practically easier to quantify with a higher degree of precision.

Verifiability:

The criterion of verifiability is important if the reported social information is to be reliable. The credibility of social information contained in corporate reports is enhanced if it is independently verified. Verifiability is primarily concerned with the availability and adequacy of evidence attesting to the validity of the data being considered. It is important because external users of social information have limited access to the data, and, sometimes, have opposing interests.

Obviously, the measurement and reporting of social costs, inflicted on society as a result of a company's economic activities, cannot be verified by an independent auditor because of the high degree of subjectivity involved and the unavailability of relevant data. On the other hand, the direct costs, or money outlays, spent by the company to prevent the occurrence of social costs can be easily verified, as there is no radical change needed in the measurement and reporting methods which are currently being used in accounting.

Freedom from bias:

Freedom from bias means that facts have been impartially measured and reported. The social information reported should be objective or unbiased in that it should not favour the interest of one user group over another. If reported information is sufficiently free from bias, it will also be fair.

The criterion of freedom from bias is important in assessing the relative desirability of alternative measurement methods. Bias is defined, here, as the difference between the value determined by a given measurement method and the true value for the attribute under consideration. The particular method which produces a value least distant from the true value is considered to be least biased, and is therefore preferable, since users, particularly external users, of social information cannot be expected to be knowledgeable of the true value of the attribute under consideration.

Thus, the measurement of prevention costs is the least biased approach for the measurement of social costs, as costs of prevention are considered to be a good practical approximation of true costs to society. Moreover, prevention costs can be measured and reported with a high degree of objectivity.

However, the measurement of prevention costs approach does not completely meet the standard of freedom from bias since the costs of prevention, as mentioned above, do not exactly measure the monetary value of social damages. Nevertheless, as the measuring of monetary value of social damages seems to be impracticable at this stage of development of corporate social accounting, then the standard of freedom from bias can only be met partially.

Hence, freedom from bias is a desirable characteristic of reported social information but not essential. The Committee to Prepare a Statement of Basic Accounting Theory of the American Accounting Association did not intend that each standard should be fully met in every instance. The Committee stated:

> "Adequate fulfilment of these criteria does not require complete adherence to any one or all of these standards under all circumstances. It is possible to realize them more fully in some cases than in others. Further, it is basic to recognize that different uses call for different degrees of adherence. The communication of information which reflects only marginal conformity to one or more of these standards requires disclosure of this characteristic to the users of the information. This marginal conformity may relate to particular figures, to an entire report, or to the system that produced the information".[50]

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50 American Accounting Association, Committee to Prepare A Statement of Basic Accounting Theory, "A Statement of Basic Accounting Theory", op. cit., p.8

Social Costs Internalised

Implied in the preventive approach to the problem of social costs is the presupposition that the occurrence of social costs should be prevented at source. This means that individual companies will, either voluntarily or compulsorily, make efforts to eliminate or minimise the harmful impact on society, or one of its elements, resulting from their economic activities. In other words, the social costs will be internalised by business companies into private costs of production.

For this preventive approach to be practically effective, the researcher believes that the prevention of social costs must be done through the co-operation of government and business companies. Most business companies will not voluntarily make efforts to eliminate social costs because of the lack of economic incentive. To create this incentive, it is necessary for the government to introduce a legal system which would make it economically advantageous for business companies to prevent the occurrence of social costs at source. This legal system could be a combination of prohibition, taxation and tax incentives and subsidies.

However, if such a legal system is to be operational, it should be based on the measurement of direct costs to individual companies, (or the money outlays required for undertaking social activities which would decrease apparent social costs or increase apparent social benefits), not on the measurement of total costs to society. At this point, the researcher would suggest the following guide-lines to help the government in creating such a legal system which should motivate corporate social responsibility performance.

(a) In areas where social costs can be prevented by business companies almost with no cost or very small ones, the generation of these social costs should be totally prohibited by legislation. Examples of such areas would be non-discriminatory practices in recruiting, hiring, training, promoting and firing of women, racial minorities, disabled persons and former prisoners.

(b) In areas where the occurrence of social costs cannot be avoided by business companies because of human error (such as both the areas of employee and consumer health and safety) or can only be avoided at very high cost (such as the area of environmental pollution control), the generation of social costs can be partially prohibited. In such areas, the enforcement of legal standards would seem to be necessary.

In setting these legal standards, the researcher suggests that the government should establish two sets of standards: one which is 'necessary', and the second which is 'desirable'. Both the necessary as well as desirable standards should be established for each kind of industry and for different localities. Co-ordination of efforts between each industry, local authorities and the central government is important in the setting (and periodically revising) of the legal standards. Moreover, the establishment of legal standards requires expertise from many fields: engineering, medicine, psychology, law, sociology, accountancy, marketing, personnel, to name a few.

If the necessary legal standards are violated by a business company, taxes should be imposed on the company as these standards are the maximum allowable limits of generating social costs. Such taxes must be great enough to force the socially irresponsible company to meet the necessary legal standards. These taxes can be based on the economic costs required to keep within the necessary limits, plus a heavy penalty which would make it unprofitable for the company to exceed these legal standards.

On the other hand, if a company reaches or surpasses the desirable standards put forward by the government, it should receive a tax reduction or cash subsidy. This tax reduction or cash subsidy must be equal to the additional outlays spent by the company over and beyond those required to meet the necessary legal standards. The aim here is for the government to induce business companies to voluntarily undertake socially responsible actions which would decrease social costs and increase social benefits. With these economic incentives in mind, business companies may introduce better methods and instal better equipment to prevent the generation of social costs.

However, it should be emphasised here that the desirable standards, unlike the necessary standards, must not be required by legislation. The government only sets the standards and determines the rewards to be given to business companies if they voluntarily reach or surpass them.

c) Furthermore, business companies should be allowed, by legislation, a full deduction against taxable income for the costs spent on socially beneficial activities, which are voluntary by nature. Examples of such costs include charitable contributions; educational and cultural contributions; and donations of cash, products or employee services to the arts, local activities and community improvements. Since these socially desirable activities cannot be required and enforced by the law, the government, through legislation, should therefore create tax incentives for companies to voluntarily participate in such activities.

Such a legal system, suggested above, would consciously assert the collective responsibility for social problems, by having government and the consumer indirectly share in the costs. The government must provide tax reductions and cash subsidies, because the government, in a sense, would be saving itself productivity losses and social costs far in excess of the money outlays spent by the company on reducing social costs or increasing social benefits. Likewise, the consumer should bear the full costs of his consumption. The reasoning for this is that since his consumption causes these social costs, the consumer should bear as much of them as possible in terms of increased product prices. A fair consumer price for a product or service, in the home country, is one which includes all costs of production, including costs of preventing the harmful effects of that particular product or service on society. If the added costs discourage his consumption, the result is still beneficial for society because certain social costs are avoided.

However, the costs of a company's social performance cannot entirely be passed on to the consumer because of government pricing controls (if in force), competition, and the availability of alternative products or services in the market. Only some of these costs can be passed on to the consumer while maintaining the company's competitive position in the market. Consequently, there is a certain percentage of social performance costs which must be borne by the company, thus reducing its profits. Accounting for these costs is therefore necessary in order to keep the company's management informed of their impact on profits, and thereby to hold them to a minimum.

Summary and Conclusions

This chapter has analysed the concept of social costs to be applied in accounting for corporate social performance. The chapter began by discussing the nature and problems of social costs, as well as the theoretical solutions to those problems, from the perspective of conventional economic theory. Then, the practical problems with the economic concept of social costs were discussed from the accounting point of view, and a pragmatic approach to solving these problems has been suggested.

Classical economic theory maintains that the market mechanism, operating through profit incentives and perfect competition among business companies, will always serve the private interests of companies and social welfare simultaneously. But the failure of the market mechanism to maximise social welfare is clearly evidenced by the existence of negative externalities. These negative externalities are also called in welfare economics 'external diseconomies', 'bad effects', 'unpaid costs' and more precisely 'social costs'.

Social costs may be defined as those costs which are generated by a company's economic activities and borne by a third party, or by society as a whole, not by the company responsible for generating them. These social costs have three main characteristics:

(1) It should be possible to avoid them as they cannot be reflected in prices charged in the market.

(2) They are created by a productive activity and transferred to a third party or to the community at large.

(3) Thus, business companies, in the pursuit of profit, will not voluntarily take account of such costs in their deliberations.

The problem with social costs is that they create a misallocation of available productive resources among industries, and therefore the maximum social welfare will not be achieved. However, to help understand the nature and problems of social costs, the definitions of social costs pioneered by welfare economists such as John Stuart Mill, John Maurice Clark, Arthur Cecil Pigou, and K. William Kapp have been reviewed.

Economists agree in principle that the solution to the problem of social costs lies in internalising these costs into private costs of production. If social costs are internalised, and accounted for by the individual company, they will be eliminated, or at least kept under reasonable control. This principle of internalisation has led some economists to propose market-type solutions to the problem of social costs. These market-type solutions have been discussed in this chapter, and it was concluded that they do not really offer effective solutions to the problem of social costs, as there are serious practical obstacles to them.

Most economists, therefore, see the necessity of government intervention. Government intervention may be through taxation, licensing, prohibition, or a system of tax incentives and subsidies. The problem with these approaches is that they all are based on a fallacious presupposition that social costs can be properly identified and quantified. In practice, however, social costs are extremely difficult, if not impossible, to identify and quantify with precision not only because they involve many subjective elements, but also because the relevant economic data are not available.

Thus, it has been concluded that accountants should not attempt to measure and report the total costs to society resulting from a company's economic activities. Accountants can only measure and report the efforts made by a business company to either reduce social costs or increase social benefits. In other words, instead of measuring the costs of corporate socially irresponsible performance, accountants should concentrate on measuring the costs of corporate socially responsible activities.

A practical approach for the measurement of social costs has been offered in this chapter. This approach has to be an approximation. The measurement of social costs can be approximated by the costs of prevention. This approach is based on the assumption that the more that is spent by a company on prevention, the smaller are the costs imposed on society.

Moreover, the costs of restoration, instead of the costs of prevention, could be another approximation of the measurement of social costs. However, it has been concluded that, in most cases, the preventive approach is preferable to the remedial approach, not only because prevention is easier and, generally, costs less than the cure, but also because the cost of restoration is a relatively vague concept and, more importantly, because restoration cannot make good all the harm done. Hence, it is believed that the measurement of direct costs, or money outlays, spent by a company on the prevention of social costs at source would be a relatively more efficient and practically effective approach. Nevertheless, in some particular areas of social responsibility, where the social damage cannot be fully prevented, the measurement of restoration costs, in addition to the measurement of prevention costs, is equally important.

Furthermore, the standards of relevance, quantifiability, verifiability and freedom from bias, set forth in A Statement of Basic Accounting Theory : 1966, have been used to justify the practical approach, offered in this chapter, and to judge its appropriateness for corporate social performance accounting. After discussing thses standards briefly, it has been concluded that the practical approach can meet them to a satisfactory degree.

Once the problem of measurement is approximately solved, social costs can then be internalised and thereby eliminated. Since business companies, because of the lack of economic incentive, are not expected to voluntarily eliminate social costs, it is necessary for the government to introduce a legal system which would create this economic incentive. Therefore, a legal system of prohibition, taxation, tax incentives and subsidies has been suggested in this chapter. Such a legal system would consciously assert the collective responsibility for social problems, by having government and the consumer indirectly share in the costs with the individual company. For this legal system to be operational, it has to be based on the measurement of direct costs to the company, not on the measurement of total costs to society.

Indeed, the measurement and reporting of direct costs incurred by a business company to reduce social costs or increase social benefits are very important steps in creating any legal system by the government. This raises the question of how these direct costs can be measured and reported by individual companies. However, the next chapter will be devoted to answering this question.

CHAPTER VI

ACCOUNTING AND REPORTING FOR COSTS OF CORPORATE SOCIAL RESPONSIBILITY PERFORMANCE

The preceding chapter reviewed the cost concepts of corporate social responsibility accounting. It dealt with the economic concept and problems of social costs as well as the theoretical economic solutions to these problems. The problem of measuring social costs was also dealt with in the preceding chapter, and a practical approach for solving that problem was suggested and justified from the point of view of the accounting theory. Moreover, a legal system of prohibition, taxation, tax incentives and subsidies was offered to create the economic incentive needed for business companies to undertake socially responsible activities, which would decrease social costs and increase social benefits. For this legal system to be operational, it had to be based on the measurement of direct costs to the company, rather than the measurement of total costs to society.

The measurement of, and reporting on, the costs of corporate socially responsible activities have great appeal to accountants precisely because such costs are expressed in monetary terms and already appear in the regular books of account of the disbursing company. These are terms which accountants are accustomed to deal with. Unfortunately, cost attribution to corporate social activities seems to involve major problems. These problems arise mainly from the fact that the activities, about which the cost data are being collected, were not those designed to be isolated by most accounting information systems. Thus, a framework needs to be developed for identifying, measuring and reporting cost information relating to corporate social activities. In this chapter, however, an attempt to develop such a framework will be made.

This chapter will be divided into three main sections. Section I will be devoted to the identification and classification of costs of corporate social activities. The accounting treatment of these costs will be discussed in Section II. Finally, a method for reporting these costs in the annual corporate report will be suggested in Section III.

I. Identification and Classification of Costs of Corporate Social Activities

The identification and classification of corporate social activities to be covered in corporate social reporting were discussed in detail in Chapter II of this thesis. Moreover, those social activities which are legally required were examined in Chapter III. Furthermore, the detailed activities to define corporate social reporting were identified, and used, in a survey of the current reporting practice, conducted by the researcher and presented in Chapter VII.[1]

However, this section will attempt to identify and classify the costs incurred by a business company in each social activity. For the purposes of this study, the discussion, in this section, will be confined to the costs of the environmental pollution control activity, as well as the costs of certain other social activities of a business firm.

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[1] See Chapter VII of this thesis, especially tables 7.3 and 7.7, on pages 335 and 350, respectively.

Classification of Costs of Corporate Social Activities

In order that the costs of corporate social activities can be measured and communicated to users of corporate reports, the following classifications of these costs are suggested. Firstly, the costs of corporate social activities may be classified as to the areas of social responsibility activity in which these costs are incurred. This kind of classification is important, as it shows how much money a company spends on each social activity. Consequently, the relative importance of each social activity, and of corporate social responsibility performance as a whole, as perceived by the company's management, can be conveyed to the external user of corporate reports.

Under this classification, the costs of corporate social performance may be incurred in the area of employment practices, environmental pollution control, energy and natural resources conservation, community involvement, fair trading practices, and/or in other areas of corporate social activity. However, for the purpose of this chapter, as mentioned above, the costs of corporate social activities will be classified as the costs of environmental pollution control activity and the costs of other social activities of a business company.

Secondly, the costs of corporate social activities may be classified as to the purpose or goal for which these costs are incurred. Under this classification, the costs of undertaking the social activity may be classified as either preventive or restorative. Preventive costs are those intended to prevent present or future damage to society or one of its elements. Restorative costs are those costs intended to correct past damage caused to society, or to one of its elements, as a result of the company's economic activities, or to restore some social resource to its original state.

Theoretically, this type of classification may apply to costs of all socially responsible activities. For example, in the area of energy and natural resources conservation, the costs incurred on energy-saving programmes are preventive costs in the sense that they are intended to prevent energy shortage problems in the future. On the other hand, the costs of developing alternative sources of energy, to offset the premature depletion of non-renewable energy resources, can be considered as restorative costs.

As another example, in the area of employment practices, the investment in health and safety facilities designed to eliminate occupational diseases and work injuries, can be regarded as preventive costs. Moreover, when an industrial accident takes place, the medical care costs, the compensation paid to all parties involved, and any other related costs, may all be considered, to some extent, as restorative costs.

However, this kind of classification is more relevant and should be restricted to the costs of environmental pollution control activity. In this context, preventive costs would include the capital, operating, and research and development expenditure spent on pollution control equipment for the purpose of preventing present and future pollution. Moreover, restorative costs may include the costs of such actions as restoring open-cast mining sites, or polluted rivers, to their former state.

A third classification may refer to the relationship between the incurred costs and the performance of corporate socially responsible activities. Under this classification, the costs of corporate social activities may be classified as direct or indirect. The direct costs refer to those costs which are directly attributable to a socially responsible activity. Indirect costs include mainly those costs which are jointly allocatable to social activities as well as to economic activities of a business company.

Direct costs will be relatively easy to determine for many of the corporate social activities. These costs are by definition easily identifiable and quantifiable once the social activity has been identified and isolated. Examples of such direct costs include the capital and operating costs incurred in environmental pollution control activity; costs and expenses incurred on employee health and safety programmes; corporate contributions for charitable and educational purposes; and corporate donations of cash or products to support local community activities, events, or organisations.

However, indirect costs may be difficult to determine with an acceptable degree of precision. For example, how can the value of the time spent on a specific social activity by a company executive be calculated? Even if such indirect costs can be isolated, what method of cost allocation should be used?

An even more difficult allocation problem arises when a company constructs a new plant embodying new technology for several reasons, such as increased efficiency, worker safety, environmental pollution control, and aesthetics. In such a case, the costs of corporate social activities cannot be separated from economic costs. Generally, joint costs are separable, if at all, only by arbitrary decision rules.

The determination of the indirect costs of corporate social activities is further compounded when one considers the opportunity costs involved. Opportunity costs are defined as "benefits foregone as a result of rejecting the next best alternative action".[2] Thus, these opportunity costs cannot be measured directly because they describe the costs of the activities foregone.

Opportunity costs are particularly relevant for making decisions as they represent the cost of achieving the same ends by different means and/or the cost of using the same resource for different ends. But, focussing on these opportunity costs may lead to a morass of calculation and to inconclusive results. Accordingly, over the years, accountants have ignored such costs. Balance sheets for many years have been prepared without any calculation of opportunity costs. Also, in the determination of the economic profit and loss of business companies, opportunity costs are never used. Moreover, rate of return on investment never includes calculation of opportunity costs.

Even economists, who made up the idea of opportunity costs in the first place, seem to have succumbed to the system. They do not calculate opportunity costs when comparing rates of return of two or more business companies. For instance, when calculating returns from investment in advertising, alternative uses for such an investment typically are not considered.[3]

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[2] Selwyn W. Becker, Joshua Ronen, and George H. Sorter, "Opportunity Costs - An Experimental Approach", Journal of Accounting Research, Autumn 1974, pp. 317-329, p.317

[3] Ibid., p.327

Furthermore, the Committee on Managerial Decision Models of the American Accounting Association, though it has stated that opportunity costs are relevant for decision making, seems to appreciate the practical problems of measuring and reporting these costs. The Committee says:

> "... we may know that opportunity costs are relevant, but we may not know how to obtain reliable measurements of such costs. Furthermore, even if such measurements are possible, the accountant usually does not have a practical cost-and-value-of-information model which assures him that the potential benefits from making such measurements will exceed their costs".[4]

Thus, opportunity costs should be excluded from the costs of social activities in accounting for corporate social performance. Accountants should concentrate on measuring and reporting all the direct costs of corporate social activities and, as far as is practicable, some of the indirect costs.

Identification of Costs of Corporate Social Activities

The costs of corporate social activities, as mentioned earlier, will be identified separately for environmental pollution control activity and for the other social activities of a business company.

Costs of environmental pollution control activity:

The costs of the corporate resources committed to environmental pollution control activity may include the following items:

(1) Capital expenditure or outlays incurred in environmental pollution control facilities for the prevention or abatement of present and future environmental damages.

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4 The American Accounting Association, the Committee on Managerial Decision Models, "Report of Committee on Managerial Decision Models", The Accounting Review, Supplement to Vol. XLIV, 1969, pp.42-76, p.48

(2) Operating costs.

(3) Research and development expenditure on environmental pollution control.

(4) In some instances, restoration costs of past damage caused to the environment by a company's economic operations.

The above items are the main categories which should be used for identifying the costs of environmental pollution control activity. Moreover, the components of these cost items are detailed below.

(1) The capital expenditure or outlays incurred in environmental pollution control facilities will be defined as the investment in "any building, structure, equipment, facility or improvement designed and constructed solely for control, reduction, prevention or abatement of discharges or releases into the environment of gaseous, liquid or solid substances, heat, noise or for the control, reduction, prevention or abatement of any other adverse impact of an activity on the environment".[5]

Thus, when pollution control facilities have been added to old processes, the capital cost is identifiable. But when new processes are designed which do not pollute, it is difficult to assess the cost of environmental pollution control. In this case, however, the cost of pollution control will be the difference in cost of

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[5] The Federal Power Commission, (U.S.A.), "Information Requirements With Respect to Environmental Protection Capital Costs and Operating Expenses", (Specimen Form Effective 1975). Cited by the American Institute of Certified Public Accountants, the Committee on Social Measurement, "The Measurement of Corporate Social Performance", (New York: The American Institute of Certified Public Accountants, 1977), pp. 85-88

facilities installed for environmental considerations over the cost of alternative facilities which would otherwise be used without environmental considerations. The basis for determining costs without environmental considerations will be the best engineering design achievable without environmental restrictions. The best engineering judgement will suffice where direct comparisons are not available. However, the engineering staff of the company and the manufacturer of those facilities may be of great help in solving this problem.

The costs incurred in environmental pollution control facilities may include the following items:[6]

"A. Air pollution control facilities:

1. Scrubbers, precipitators, tall smokestacks, etc.
2. Changes necessary to accommodate use of environmentally clean fuels such as low ash or low sulphur fuels including storage and handling equipment.
3. Monitoring equipment.
4. Other.

B. Water pollution control facilities:

1. Cooling towers, ponds, piping, pumps, etc.
2. Wastewater treatment equipment
3. Sanitary waste disposal equipment
4. Oil interceptors
5. Sediment control facilities
6. Monitoring equipment
7. Other

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[6] Ibid. p.86

C. Solid waste disposal costs:

1. Ash handling and disposal equipment

2. Land

3. Settling ponds

4. Other

D. Noise abatement equipment:

1. Structures

2. Mufflers

3. Soundproofing equipment

4. Monitoring equipment

5. Other

E. Aesthetic costs:

1. Architectural costs

2. Towers

3. Underground lines

4. Landscaping

5. Other

F. Additional plant capacity necessary due to restricted output from existing facilities or addition of pollution control facilities.

G. Miscellaneous:

1. Preparation of environmental reports

2. Fish and wildlife plants

3. Parks and related facilities

4. Other "

Once a company has installed environmental pollution control equipment, it will incur certain operating costs associated with the use of that equipment. These operating costs are discussed below.

(2) Operating costs represent the costs incurred due to the operation of environmental pollution control equipment, facilities and programmes. These operating costs may consist of the following items:

(a) Depreciation
(b) Equipment operating costs
(c) Maintenance costs
(d) Fuel or power costs
(e) Disposal costs
(f) Monitoring costs
(g) Miscellaneous costs

The capital costs should be depreciated over the productive life of the asset. Normal financial accounting rules should be followed to determine the method of depreciation and hence the amount of the depreciation in any particular accounting period. Nevertheless, in determining the amount of the depreciation, the danger of early obsolescence, for regulatory, economic or technological reasons, should be taken into consideration. The danger is that a company may commit itself to a pollution control process which fails, either because its competitors make profitable use of a new technology which cuts their pollution control costs or because it cannot be modified to meet increasingly stringent regulatory criteria.

Operating costs of environmental pollution control equipment include labour and material costs. Typically, the identification of the costs of direct labour and materials used for the operation of pollution control equipment may not present major difficulties. For instance, if full-time operators are needed to run the facilities, the pay-roll and fringe benefits to be charged to the pollution control activity are easily identifiable. Also, the cost of the materials or chemicals required for pollution control programmes can be identified easily. However, the identification of the indirect costs, as previously mentioned, may pose a major problem. For example, the installation of pollution control equipment may lead to a change to the use of more expensive materials or to the use of a less efficient or a more labour intensive production process. In this example, the identification and quantification of these additional production costs may in practice present a major problem. Nevertheless, these costs are frequently overlooked as they are immaterial and are usually allocated over the products produced by the company.

Maintenance costs should include both normal and unusual maintenance requirements. These costs, mainly labour and materials, should be readily identifiable for a company which has a sophisticated accounting system.

The cost of fuel or power, used for the operation of environmental pollution control equipment, should be identified separately as it adversely affects the performance of a company in the social area of energy conservation. In some instances, the addition of some form of meter may enable specific identification of the costs of fuel or power used by pollution control equipment. But, where environmental pollution control facilities are an integral part of the plant and equipment, or if the power is generated internally and supplied in a form which cannot be readily identifiable, difficulties in measuring actual costs may arise. However, in those situations where direct measurement is not possible, the cost of fuel or power should be the excess of the normal (average) fuel or power costs incurred in operating the system without such pollution control facilities. To arrive at this figure, the company's engineers and the manufacturer of the equipment have to be consulted. Furthermore, the cost of fuel or power should include the difference in costs of environmentally clean fuels as opposed to the alternative fuels which would otherwise be used and are available for use.

Disposal costs include the costs incurred due to the ultimate disposal of waste products which are not recycled. These waste products may be from either the pollution control equipment (e.g. the particulate matter collected in bag houses) or directly from the production process if no pollution control equipment is employed.

Monitoring costs are the costs of labour, supplies and perhaps overheads incurred to monitor the compliance with predetermined acceptable levels of pollution.[7] These may be costs associated with continuous monitoring, such as the control of emissions from blast furnaces, or periodic monitoring, such as the checking of ambient air quality at sites surrounding a factory.

Miscellaneous costs include such items as insurance premiums on a policy purchased to protect the pollution control facilities; taxes levied on such facilities; the cost of obtaining permits and other similar fees; fines imposed on the company due to the improper operation of the environmental pollution control facilities; and any other costs incurred in connection with the operation of these facilities.

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7 See Loren A. Nikolai, John D. Bazley, and R. Lee Brummet, "The Measurement of Corporate Environmental Activity", (New York: National Association of Accountants, 1976), p.56

(3) Research and development expenditure includes the capital and running costs incurred on initial research and continuing research to maintain the content of the effluent at acceptable levels. These costs may also include the costs of research work on environmental matters undertaken by universities or other research centres and sponsored by the company.

Some companies may have their own departments or units which are devoted solely to research and development on environmental activity. In such cases, the total traceable costs of these departments or units will be charged to this activity. However, when the research group on environmental activities is part of a total research and development department of a company, then the salary and benefits of those people working full-time or part-time on environmental activities, as well as the materials and supplies used by them, should be identified separately.

(4) Restoration costs of past damage caused to the environment by a company's economic operations may, in some instances, be significant. For example, in open-cast mining operations, these costs will be the costs incurred to restore the land surface to approximately its original condition. Such costs, however, are separable from economic costs as they are usually incurred after the termination of economic activities. Hence, the identification of these costs should not present a major difficulty.

Costs of other corporate social activities:

The costs of other corporate social activities include, but are not limited to, the following items:

(1) Direct cash outlays incurred either to pursue a specific social programme or as direct contributions to support

charitable and educational institutions or local community activities, events and organisations.

(2) Administrative costs.

(3) Share of departmental overheads.

(4) In some instances, capital costs incurred in certain facilities such as health and safety equipment, training aids and recreational facilities.

(5) Research and development costs for improving job safety and product safety, or on the development of new sources of energy and increased energy efficiency of products.

The significant components of the above mentioned items may be described as follows:

(1) Direct expenses incurred in a specific social programme or activity. For example, in the area of community involvement, these direct costs may include educational and charitable contributions; corporate donations to support established community activities, events, or organisations; and the costs of training programmes provided for non-employees and school-leavers of the local area.

Moreover, in the area of employment practices, direct costs would include expenses incurred on such social programmes as functional training or retraining programmes for all employees; special training programmes for immigrant workers, disabled workers and women; fringe benefits provided for employees; a nursery school for children of employees; and direct financial aids for education purposes in the form of tuition refunds, employee scholarships, or education leave.

The identification of these direct costs should not present major problems. They can be easily identified just by making a few additional classification inquiries into the cost data of a business company.

(2) Administrative costs represent the value of the time spent on a specific social activity by the personnel of a company. If the personnel spend all their time working on a social activity, their salaries and benefits should be included in the cost of the activity. However, where the personnel spend only part of their time running the social programme, the cost identified with it should be determined by multiplying the number of hours spent on the programme by the average hourly compensation rate (base pay plus benefits) of such personnel.

(3) Share of departmental overheads. The identification of the departmental overheads to be allocated to social activities is usually very difficult. However, this cost is generally immaterial unless the whole department, unit, or office has been devoted solely to social activities. An example of this is the health and safety, social responsibility, or social affairs department, or office of a business company.

On the other hand, the assumption of social responsibilities by a business company may increase the workload in such areas as accounting, personnel, purchasing, governmental liaison, supervision and management. These additional costs of company or departmental overheads are insignificant and almost impossible to identify and quantify with precision. Thus, at the present time, these additional overhead expenses should be disregarded in accounting for the costs of corporate social responsibility performance.

(4) In instances where a company incurs capital costs on

certain equipment or facilities for its social activities, these capital costs should be identified separately. Examples of such equipment and facilities would include health and safety equipment, training aids, and recreational facilities provided for employees and the local community.

These capital costs must be depreciated over the productive life of the asset based on the company's depreciation policies. Obviously, the depreciation should be a part of the total costs of corporate social responsibility performance for a particular period.

(5) A company may also incur capital and running costs on research and development in such areas as job safety, product safety, and the conservation of energy and natural resources. These costs should be a part of the total cost of the social activity. However, the identification and quantification of these research and development costs should not be different from those research and development costs on corporate environmental pollution control activity discussed above.

II. Accounting for Costs of Corporate Social Activities

The accounting treatment of the costs which are identified above with corporate social activities should not be different from the accounting for costs incurred by a company in its normal business activities. Accountants should use accrual accounting for costs, expenses and liabilities when accounting for corporate social responsibility performance. The accrual basis of accounting, as distinguished from the cash basis, requires that costs and expenses be related to specific periods of time. Hence, any cost incurred must be related to either the past, the present or future periods of time. The outlays related to current production activities should be treated as expenses. While expenditure related to future activities should be capitalised and allocated to future periods, costs incurred to correct past damage should be treated as an adjustment of prior-periods' income.

Thus, the accrual method of accounting is centred around the main theme of transferring and apportioning the financial effects of transactions from the period in which they occur to the periods to which they may be directly related. It tries to match revenues realised in a particular period of time with the related costs and expenses incurred in the same period. Hence, under accrual accounting, charges to income in the period benefited from socially responsible activities would appear justified, although some companies may prefer using the cash-basis accounting for these social outlays.

The accounting treatment of the costs of corporate social activities will be discussed briefly, in the following paragraphs, in accordance with generally accepted accounting principles

Costs of environmental pollution control activity:

The costs of environmental pollution control activity were identified earlier as the (1) capital costs, (2) operating costs, (3) research and development costs, and (4) restoration costs. Using the accrual method of accounting,[8] these costs should be treated as follows:

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[8] The application of accrual accounting to costs of environmental pollution control activity was recommended by the Committee on Environmental Effects of Organisation Behaviour of the American Accounting Association in 1973. (See: The American Accounting Association, the Committee on Environmental Effects of Organisation Behaviour, "Report of Committee on Environmental Effects of
(footnote 8 contined overleaf)

(1) Capital costs incurred in environmental pollution control facilities for the prevention or abatement of future environmental damage should be carried forward in the traditional balance sheet and be termed as assets. Since future periods are intended to be benefited, the expected future benefits represent an asset. Hence, according to the matching principle,[9] the costs of pollution control facilities should be capitalised to be later depreciated over the periods benefited. This accounting treatment for the capital costs of pollution control facilities will illustrate a realistic picture of the financial position of the company.

Apparently, the timing and periods of the benefits are difficult to determine accurately and hence subjective apportionment seems to be the only solution. However, the costs of pollution control assets can be measured by an objective method which involves the measurement at the acquisition date and at the acquisition cost in accordance with the historic cost principle in accounting.

(2) Operating costs of environmental pollution control facilities and programmes for a particular period were identified earlier as the (a) depreciation, (b) equipment operating costs, (c) main-

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(footnote 8 cont.) - Organisational Behaviour", The Accounting Review, Supplement to Vol. XLVIII, 1973, pp.72-119, especially pp. 103-109)

This method of accounting for pollution costs was also suggested by Beams and Fertig, in 1971, and Belkaoui, in 1973. (See: Floyd A. Beams and Paul E. Fertig, "Pollution Control Through Social Cost Conversion", The Journal of Accountancy, November, 1971, pp. 37-42, and Ahmed Belkaoui, "Accounting Treatments of Pollution Costs", CGA, August - September, 1973, pp. 19-21)

[9] See for example:

T.A. Lee, "Income and Value Measurement: Theory and Practice", (London: Nelson, 1974), pp. 50-51 tenance costs, (d) fuel or power costs, (e) disposal costs, (f) monitoring costs, and (g) miscellaneous costs. These costs should be accounted for as current product costs as they are related to the current production activities of the period. This accounting treatment is consistent with the generally accepted accounting principles which require that the net income for a particular period should reflect all items of profit and loss recognised during the period. Thus, the operating costs of environmental pollution control activity should be expensed.

(3) Research and development costs on environmental pollution control may be expensed or capitalised depending on the accounting practice or policy of the company. The accounting method adopted, however, should be disclosed clearly in the statement of accounting policies, or as a footnote to the financial statements.

(4) Restoration costs of past environmental damage resulting from production activities of prior periods should be accounted for as a prior period's adjustment to net income. These costs may be treated as a deduction to retained earnings or as an extraordinary loss.

There are, however, certain restoration costs which may be charged to current production activities. In the oil industry, for instance, the cost of restoring the environment after an oil spill is charged to current operations. In this particular case, while the cost of maintaining safeguards against an oil spill is a current production cost, the cost of cleaning the environment, and all subsequent costs to restore the area to its former state should be treated as an extraordinary item in accordance with the accounting treatment recommended by the American Institute of Certified Public Accountants for this particular transaction.[10] Moreover, this extraordinary item should be accompanied by a footnote describing the nature and amount of loss; tax effects; and other relevant information related to the transaction.

Furthermore, extractive industries are often obliged, under their lease contracts, to restore at the termination of the lease agreement the damage caused to the environment or landscape by their economic activities. In these cases, generally accepted accounting principles require that the estimated liability for the period be accrued, and the corresponding expense be charged to current activities. This accounting treatment for estimated costs of restoration should satisfy the matching principle in accounting which would seem to require charges to income in the period of environmental degradation rather than in the period of outlay.

Nevertheless, commitments of such nature still represent liabilities even if the amounts and timing are indefinite. This is consistent with the following generally accepted accounting principle:

> "All known liabilities should be recorded regardless of whether the definite amount is determinable. If the amounts cannot be reasonably approximated, the nature of the items should be disclosed on the face of the summary of liabilities or by footnote."[11]

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[10] See: American Institute of Certified Public Accountants, Accounting Principles Board, "Accounting Principles" as of June 30, 1973, Current Text, Vol.1, (New York: Published for the American Institute of Certified Public Accountants by Commerce Clearing House, 1973), paras. 19-22, pp.1109-1111

[11] Paul Grady, "Inventory of Generally Accepted Accounting Principles for Business Enterprises", Accounting Research Study No.7, (New York: American Institute of Certified Public Accountants, 1965), p.65. Also see: American Accounting Association, Committee on Environmental Effects of Organisation Behaviour, Report of the Committee, *op. cit.*, p.106

Costs of other corporate social activities:

The costs of other corporate social activities were identified earlier as the direct cash outlays; administrative costs; share of departmental overheads; research and development costs; and, in some instances, capital costs incurred in certain facilities. The accounting treatments of such costs are summarised below.

The direct outlays, administrative costs, and perhaps, share of departmental overheads should be accounted for as operating expenses. Hence, these costs should be charged to income for the current period.

The costs incurred on research and development in such areas as job safety, product safety and the conservation of energy and natural resources may be capitalised or expensed depending on the company's accounting policy regarding this matter. The accounting treatment to be followed by a company will depend on the magnitude of such costs in conformity with the accounting concept of materiality.

In those instances, where capital costs are incurred in certain equipment or facilities such as safety equipment, training aids and recreational facilities, these costs should be capitalised and allocated to the periods of expected benefit. However, if these costs are relatively small compared with other costs and with the sales figures, then the effect of either capitalising or expensing them on the earnings would not be so misleading. Thus, such costs may be charged to expense for the current period in accordance with the concept of materiality.

However, the costs of corporate social activities, discussed above, may be completely obscure to users of corporate reports even though they are usually included in the traditional accounting system. Thus, separate disclosures of these costs are required. These disclosures can be readily adapted to the present framework of the accounting reporting system.

III. Reporting for Costs of Corporate Social Activities

Reporting the costs of social activities, separately from costs of regular activities of a business company, would give the users of corporate reports the chance to judge the company's performance by social as well as financial criteria. Shareholders would receive additional information about actions which may affect the company's earning power, and hence future profits, and which will help them in judging the social responsibilities of their company and its efforts to discharge them. Employees might receive useful information regarding job security, safety, discrimination, satisfaction and advancement. Customers would receive information about product performance, safety, disposability, and the like. Social interest groups and the public in general might receive information about the company's charitable and educational contributions, community involvement programmes, environmental pollution control, energy and natural resources conservation, and other company activities which would enhance the welfare of society. In short, external users of corporate reports would all benefit from separate disclosures of costs of corporate social activities.

In fact, there is no argument about the necessity of reporting the costs of social activities separately from the costs of economic activities of a business company. But the trouble is that the proper approach for such separate reporting is debatable. For instance, as was discussed in Chapter IV, those who have adopted the cost approach to corporate social responsibility accounting see the need for a new and different reporting system.

The reason for this is that those writers concentrate on the measurement and reporting of information concerning the impact of a business company and its activities on society. In other words, the thrust of such writings is addressed to the problems of corporate social audit. This excludes the primary responsibility of accounting to provide the users of corporate financial reports with useful and relevant information on both social as well as financial performances of business companies. Thus, the immediate problem of the accountancy profession is how to report the costs of corporate social activities in the traditional financial statements.

Some other writers[12] who write on the subject argue therefore that these costs can be separately reported within the present accounting reporting system. Some extensions of the current financial statements may be required, but no severe alteration of the conventional reporting system is demanded.

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12 See for example:

- The American Accounting Association, the Committee on Environmental Effects of Organisation Behaviour", Report of Committee on Environmental Effects of Organisational Behaviour", op. cit., pp.103-109

- Floyd A. Beams, "Accounting for Environmental Pollution", The New York Certified Public Accountant, August 1970, pp. 657-661

- Floyd A. Beams and Paul E. Fertig, "Pollution Control Through Social Cost Conversion", op. cit., pp. 37-42.

- John Tepper Martin, "Accounting for Pollution", The Journal of Accountancy, February 1973, pp. 41-46

- D.E. Dunnock, "Social Responsibility in Practice", Cost and Management, September - October 1973, pp. 6-13

- Ahmed Belkaoui, "Accounting Treatments of Pollution Costs", op. cit., pp. 19-21

However, a review of the cost concepts to be used in accounting for corporate social performance offered in Chapter V, and the analysis of costs identified with corporate social activities and their accounting treatment presented earlier in this chapter, would all suggest that these costs can be separately reported within the present framework of the accounting reporting system. Hence, this study proposes that the traditional financial statements should be expanded to show separately the costs of corporate social responsibility performance. The advantages of this proposal are considerable. First, the costs of social activities, which can be stated in financial terms, would be more meaningful if they were reported along with all the financial matters of a business company.

Another significant advantage of using the existing accounting and reporting system is that it would permit the additional social information to be attested to by independent auditors relatively quickly. This would, of course, enhance the credibility of reported social information.

A third advantage is that a fair comparison between business companies, based on financial statements would be possible. The problem of comparability in financial statements of different companies has already been discussed in connection with costs of corporate social activities.[13] However, separate disclosures of costs of corporate social activities in the traditional financial statements would certainly help in solving this problem.

Finally, the disclosure of social information in the traditional financial statements would achieve one of the objectives of

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[13] See Chapter IV of this thesis, especially p. 157

financial statements recognised by the 1973 Report of the Study Group on the Objectives of Financial Statements of the American Institute of Certified Public Accountants. The Report states:

> "An objective of financial statements is to report on those activities of the enterprise affecting society which can be determined and described or measured and which are important to the role of the enterprise in its social environment."[13]

At present, the traditional accounting reporting system, exemplified in the financial statements and notes which are supported by an independent auditor's opinion, is limited to reporting the economic performance of a business company. This reporting system, as presently constructed, does not meet the need for communicating the company's efforts and achievements in the areas of corporate social responsibility performance. This deficiency in communication is the problem to which this research has been directed.

Therefore, the rest of this section will be devoted to the reporting of costs of corporate social activities within the traditional financial statements. Moreover, explanatory footnotes, schedules or other supplemental reports to accompany the financial statements will also be dealt with.

<u>Reporting the Costs of Corporate Social Activities within the Traditional Financial Statements:</u>

The traditional financial statements, comprising the income statement (profit and loss account), statement of financial position (balance sheet) and statement of source and application of funds,

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13 American Institute of Certified Public Accountants, Report of the Study Group on the Objectives of Financial Statements, "<u>Objectives of Financial Statements</u>", (New York: American Institute of Certified Public Accountants, October 1973), p.55

should be expanded to disclose as separate items the costs of corporate social activities. These separate disclosures, however, are presented below.

Income Statement

Profit as the difference between sales income and the costs incurred has been a satisfactory concept as long as the objective was to maximise income, minimise costs and hence maximise profit. But business companies now have a situation in which other costs are deliberately being incurred in the pursuit of socially responsible activities. These costs may interfere with effective managerial control. Moreover, they might absorb most of the profit and imply inefficiency.

Current reporting practice, as will be shown later in Chapter VII, buries these costs among economic costs and expenses for the period under a limited number of functional classifications such as cost of products sold; selling and administrative expenses; interest and financing costs; and depreciation of property, plant and equipment. Obviously, this presentation does not clearly and distinctly show the efforts made by a company to discharge its social responsibilities.

Thus, a separate disclosure of such costs is required to allow for these difficulties. Costs and expenses recognised by the company during a particular period should be divided into two categories:

(a) economic costs and expenses needed to support sales and generate profits, and

(b) costs and expenses incurred in connection with the corporate social responsibility performance.

These two categories of costs and expenses can be presented in the traditional income statement for the period (and for the corresponding previous period) as follows:

Income Statement
for the year ended 31st December, 19..

	This Year		Last Year	
	£'000	£'000	£'000	£'000
Sales		xxxx		xxxx
Less: Customs duties and sales taxes		x		x
Net sales		xxxx		xxxx
Less: Cost of products sold		x		x
Trading Profit		xxx		xxx
Less: Economic costs and expenses				
Selling and administrative costs	x		x	
Depreciation of property, plant and equipment	x		x	
Interest and financing costs	x		x	
Other costs and expenses	x	xx	x	xx
Profit before Social Operating Costs, Taxation and Extraordinary Items		xx		xx
Less: Social operating costs and expenses				
Depreciation of pollution control facilities	x		x	
Other pollution control expenses	x		x	
Conservation expenses	x		x	
Employee welfare expenses	x		x	
Community involvement expenses	x		x	
Consumer protection expenses	x		x	
Other social responsibility expenses	x	x	x	x
Profit before Taxation and Extraordinary Items		xx		xx
Less: Taxation payable		x		x
Net Profit after Taxation, but before Extraordinary Items		xx		xx
Less: Extraordinary Items		x		x
Net Profit Available for Appropriation		xx		xx
Less: Dividends				
Preference dividends	x		x	
Ordinary dividends				
- Interim	x		x	
- Final proposed	x	x	x	x
Retained Profit for the Year		xx		xx
Retained Profit Brought Forward from Last Year	xx		xx	
Less: Prior period adjustments (Restoration costs of past environmental damage)	x	x	x	x
Retained Profit Carried Forward to Next Year		£ xx		£ xx

	Pence	Pence
Earnings per Ordinary Share		
- Before social operating costs, taxation and extraordinary items	x	x
- After social operating costs, but before taxation and extraordinary items	x	x
- After taxation, but before extraordinary items	x	x
- After extraordinary items	x	x

Ideally, each item of the costs of corporate social activities should be separately presented in the body of the income statement. But the magnitude of such costs may appear to be immaterial compared with other costs of economic activities or with the sales figure. This may raise some objections to detailed presentation of these costs as separate items.

Alternatively, these costs can be presented collectively in a very limited number of items. At a minimum, these items should include the cost of environmental pollution control activity and costs of other social activities. This presentation, however, should be accompanied by explanatory footnotes, schedules or additional details displaying a listing of each social activity and its corresponding costs, the method or procedure used in calculating the amounts, comparison of costs of this period and last period, and other data which may enhance the cost information disclosed briefly in the body of the statement.

Furthermore, the accounting treatment for research and development costs on environmental pollution control activity, or on other social activities, should, as mentioned earlier, be disclosed in the statement of accounting policies or as a footnote to the financial statement.

Extraordinary Items:

As mentioned earlier, in the oil industry, the costs of restoring the environment after an oil spill may be charged to current production activities. In such a case, these costs should be treated as an extraordinary item.

Moreover, a business company may be faced with the problem of obsolescence of its pollution control facilities for economic, technological or regulatory reasons. If the company decides to replace these facilities, the immediate write-off of these assets should be accounted for as an extraordinary item in accordance with current accounting practice.[14] Likewise, if the write-off of the pollution control facilities would result in a discontinuation of a segment of the company's business, the accounting treatment is still similar to the accounting recognition for extraordinary items.

The value of extraordinary items should be presented in the income statement separately from the results of ordinary activities of a business company. Furthermore, this presentation should be supplemented by a footnote to the financial statements describing the nature and amount of loss, tax effects and other relevant information.

Earnings per Ordinary Share Calculation:

Generally, earnings per ordinary share is calculated by dividing the net earnings for the year (after preference dividends) by the weighted average number of ordinary shares in issue during the year. The net earnings for the year, to be used in the earnings per ordinary

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[14] See: The Institute of Chartered Accountants in England and Wales, "Accounting Standards 1977", (London: The Institute of Chartered Accountants in England and Wales, 1977), pp.186-191

share calculation, may be based upon one, or more, of the following:

1. Net profit before social operating costs, taxation and extraordinary items.
2. Net profit after social operating costs, but before taxation and extraordinary items.
3. Net profit after social operating costs and taxation, but before extraordinary items.
4. Net profit after social operating costs, taxation and extraordinary items.

Most companies present earnings per share data in their income statements. The calculation of these earnings per share is usually based on net profit before United Kingdom taxation and after United Kingdom taxation. The difference in earnings per share, before and after taxation, would show the effect of income taxes on earnings per share.

The calculation of a per share earnings should also be based on net profit before extraordinary items as well as after extraordinary items. The usefulness of these calculations is to inform the users of the financial statements of the earnings per share which is directly attributable to the results of ordinary operations of a company and of the impact of extraordinary items on this per share earnings.

By the same logic, it would also be useful if the earnings per ordinary share calculation, in the income statement of a company, is based on profit before social operating costs and after social operating costs. This presentation will assist the users of the financial statements to evaluate the social performance as well as the purely economic performance of a business company. This would

would also improve the comparability of financial statements of different companies.

Obviously, the difference between the two earnings per share calculations, before and after social operating costs, is directly attributable to these costs of corporate social activities. It should be exactly equal to the costs of social activities divided by the weighted average number of ordinary shares in issue during the year. However, this difference in earnings per chare calculations, or per share costs of corporate social activities, would show the amount of profits per share which the company committed to social responsibility performance. This could be a good indicator of the degree to which the reporting company is actually involved in socially responsible activities.

Balance Sheet

As mentioned earlier, the capital costs of physical facilities acquired for environmental pollution control activity, or for other social activities which are regarded as having useful lives longer than one year, should be carried forward in the traditional balance sheet and termed as assets in accordance with generally accepted accounting principles. These facilities should be separately disclosed in the balance sheet, under the general title of fixed assets, as they are usually material in amount and have a distinct function. This separate disclosure of environmental pollution control facilities, and of facilities acquired for other social activities, implies similar treatment in the financial statements for related accumulated depreciation and depreciation expense accounts.

An example of this proposal is presented on page 303.

Balance Sheet at 31st December, 19..

	This Year		Last Year	
	£'000	£'000	£'000	£'000
Assets Employed:				
Fixed Assets:				
Property, plant and equipment at cost	xx		xx	
Less: Accumulated depreciation	x		x	
Property, plant and equipment, net		xx		xx
Pollution control facilities, at cost	xx		xx	
Less: Accumulated depreciation	x		x	
Pollution control facilities, net		xx		xx
Facilities acquired for other social activities, at cost	xx		xx	
Less: Accumulated depreciation	x		x	
Facilities acquired for other social activities, net		xx		xx
		xxx		xxx
Current Assets:				
Stocks	xx		xx	
Debtors and prepayments	xx		xx	
Bank and cash balances	xx		xx	
	xxx		xxx	
Current Liabilities:				
Creditors	xx		xx	
Taxation	xx		xx	
Bank loans and overdrafts	xx		xx	
Other short term borrowings	xx		xx	
Proposed dividends	xx		xx	
Assessed but unpaid penalties or pollution taxes	xx		xx	
	xxx		xxx	
Net Current Assets		xxx		xxx
Goodwill		xx		xx
Net Assets Employed		xxx		xxx
Financed by:-				
Ordinary Shareholders Funds				
Issued ordinary capital	xx		xx	
Reserves	xx		xx	
Retained profit	xx		xx	
Total shareholders' funds		xx		xx
Preference Share Capital		xx		xx
Loan Capital		xx		xx
Deferred Taxation		xx		xx
Estimated costs of future restoration of environment for past damage		xx		xx
Capital employed		xxx		xxx

However, some problems in distinguishing between the different classes of assets may arise in situations where pollution control facilities, or other social facilities, are an integral part of plant and equipment. As mentioned earlier, a company may construct a new plant which is designed to increase efficiency while, at the same time, reducing environmental pollution or the accident rate or achieving some other social objective. In such cases, the question which will necessarily arise will be: What portion of the total cost of the new plant and equipment should be grouped in the balance sheet with the other types of pollution control facilities, or with facilities acquired for other social activities?

In answering this question, the Committee on Environmental Effects of Organisation Behaviour of the American Accounting Association has offered three possible solutions. These solutions are: (1) the additional cost incurred due to the inclusion of special environmental pollution control components, (2) the entire cost of the project, or (3) none of the costs.[15] The Committee suggested the first solution, but appears to prefer the third choice because of the possibility that the new equipment may not be available without the pollution control components.[16]

However, the researcher prefers the first choice, since the emphasis is on the function of the assets. The above question will not be critical if the equipment is available in the market with and without the social features. The capital cost of these features can

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[15] The American Accounting Association, the Committee on Environmental Effects of Organisation Behaviour, "Report of Committee on Environmental Effects of Organisational Behaviour", <u>op. cit</u>., p.104

[16] <u>Ibid</u>.

easily be established by the purchasing company as the difference between the two selling prices. But if the equipment is available only with the social features or manufactured to order, the amount of the difference will not be evident. In this case, however, the additional cost to the purchaser will have to be furnished by the manufacturer of the equipment or estimated by the company itself or its engineering consultants.

Furthermore, a supplemental footnote or schedule, describing the amount of pollution caused by the company, the company's compliance with environmental regulations, the adequacy of its existing pollution control equipment and future plans of the company to abate pollution, supports the balance sheet presentation. This supplemental footnote or schedule would portray the company's contribution to environmental pollution and its efforts to abate pollution. It would also disclose any possible legal action which might be taken against the company if the programme of compliance set by the company is below the legal requirements or standards set by a governmental authority.

Liabilities:

Costs of penalties or pollution taxes imposed on the company as a result of the improper operation of the environmental pollution control facilities, or for non-compliance with governmental regulations and standards, should be recorded in the accounts and reported separately in the financial statements of a business company. Unpaid portions of these costs represent a liability. This liability should be classified as current in the balance sheet.

Moreover, costs of future restoration of the environment for past and current damages should be disclosed in the balance sheet as a liability if they are certain and can be objectively estimated. A separate item, when material, would enhance this disclosure.

Contingent liabilities:

Contingent liabilities arising from possible legal actions against a company under a leasing contract, or where it is in violation of existing laws and governmental regulations, should also be recognised and reported. Generally accepted accounting principles require the disclosure of such contingencies in separate schedules or notes to the financial statements if the omission of this information would tend to make the financial statements misleading.

An example of these contingent liabilities would be costs of future restoration of the environment for past damage when the timing and amounts are indefinite. As mentioned earlier, these costs are in some cases certain, but only the amounts and timing may not be objectively determinable.

Other examples of contingent liabilities may include possible penalties for non-compliance with the existing pollution control legislation including governmental regulations, and possible closing or temporary shut-downs as a result of the inability of the company to meet control dead-lines or anticipated more stringent control standards. However, these contingent liabilities may be recorded in the accounts or disclosed in notes to the financial statements in accordance with generally accepted accounting principles.

Statement of Source and Application of Funds

Following the above proposal that the facilities acquired for pollution control activity, and for other social activities of a company, should be presented separately in the balance sheet at the beginning and end of an accounting period, it would be necessary also to disclose the movements in these social assets which have taken place during that particular period. This information is not specifically disclosed by the balance sheet or income statement but can be made available in the statement of source and application of funds.

Thus, this study proposes that the additions to, and disposals of, social assets acquired for pollution control activity and for other social activities of a business company which have taken place during a period should be presented separately in the company's statement of source and application of funds for that period. The book value of disposals of these social facilities should be presented as a source of funds, and the new additions to such facilities should be disclosed separately as an application of funds. However, a simple presentation of this proposal is illustrated on page 308.

It would also be fruitful if this presentation were followed by a schedule or explanatory footnote describing the balance at the beginning of the period, changes which have taken place during the period and the balance at the end of that period for each class of social facilities. This information will provide a link between the balance sheet at the beginning of the period, the statement of source and application of funds for the period and the balance sheet at the end of the period. An illustration of such information is shown on page 309.

Statement of Source and Application of Funds
for the year ended 31st December, 19

		This Year		Last Year
	£'000	£'000	£'000	£'000
Source of Funds				
Profit before taxation and extraordinary items		xxxx		xxxx
Extraordinary items		(xx)		(xx)
		xxx		xxx
Adjustments for items not involving the movement of funds:-				
Depreciation				
- Property, plant and equipment	xx		xx	
- Pollution control facilities	xx		xx	
- Other social facilities	xx		xx	
	xx		xx	
Increase in provisions for employees' pensions	xx		xx	
Increase/(decrease) in deferred taxation	xx		xx	
Other items	xx	xx	xx	xx
Total generated from operations		xxx		xxx
Funds from other sources:-				
Disposal of fixed assets, at book value				
- Property, plant and equipment	xx		xx	
- Pollution control facilities	xx		xx	
- Other social facilities	xx		xx	
	xx		xx	
Sales of investments	xx		xx	
Issue of shares	xx		xx	
Increase in loan capital	xx		xx	
Other sources	xx	xxx	xx	
Total Sources		xxxx		xxxx
Application of Funds				
Purchase of fixed assets				
- Property, plant and equipment	xx		xx	
- Pollution control facilities	xx		xx	
- Other social facilities	xx	xx	xx	xx
Purchase of investments		xx		xx
Repayment of loans		xx		xx
Dividends paid or proposed		xx		xx
Taxation paid		xx		xx
Other items		xx		xx
Total Applications		xxx		xxx
Increase/(decrease) in working capital		x		x

Classification of Social Facilities	Balance Beginning of Year	Changes during Year		Balance End of Year
		Additions	Disposals	
Pollution Control Facilities:				
Air Pollution Control Facilities				
Water Pollution Control Facilities				
Solid Waste Disposal Facilities				
Noise Abatement Equipment				
Aesthetic Facilities				
Miscellaneous				
Total Pollution Control Facilities				
Other Social Facilities:				
Training Facilities				
Health and Safety Equipment				
Recreational Facilities				
Product Safety Equipment				
Other Facilities and Equipment				
Total Other Social Facilities				
Total Social Facilities				

Additional Social Information:

The reporting of costs of social activities as separate items in the traditional financial statements of a business company, presented above, may be insufficient to impart a comprehensive picture of the company's social responsibility performance. Additional social information and statistical data may be needed which will portray the recognition of social responsibilities of the company, the efforts which have been made, and are planned, to discharge these responsibilities, and the achievements to date. This information can be disclosed in a supplemental report to be included in the annual corporate report as an adjunct to the traditional financial statements. This report, to be called the "Social Responsibility Report", "Social Performance Report" or other terms of similar import, will assist the users of corporate reports in assessing the social performance of the reporting company.

This supplemental report may briefly narrate the corporate social objectives or policies. In addition, the commitments and achievements of the company in social performance areas should be presented. Also to be shown in the report are indicators of social performance and all other information relating to corporate social activities. Examples of these indicators and other social information are presented in Table 7.7 in the next chapter.

Summary and Conclusions

This chapter has discussed the accounting and reporting system for costs of corporate social responsibility performance. The chapter began by classifying and identifying the costs of corporate social activities since the classification and identification of these costs provide very important steps towards the development of an accounting and reporting system.

The costs of corporate social activities can be classified from many different points of view. Nevertheless, three kinds of classification were suggested in the first section of this chapter. Firstly, as to the areas of social responsibility activity, the costs of corporate social activities may be classified as the costs of employment practices, environmental pollution control, energy and natural resources conservation, community involvement, fair trading practices, and of any other corporate social activity. However, for the purpose of this study, these costs were classified into two main categories: the costs of environmental pollution control activity, and the costs of other social activities of a business firm.

Secondly, as to the purpose or goal for which these costs are incurred, the costs of corporate social activities may be classified as either preventive or restorative. Although this kind of classification may theoretically apply to costs of all socially responsible activities, it was concluded that it is more relevant and should be limited to the costs of environmental pollution control activity.

Thirdly, as to the relationship between the incurred costs and the performance of corporate social activities, these costs may be classified as direct or indirect. Since the indirect costs may be difficult to determine with precision, it was concluded that accountants should concentrate on measuring and reporting all the direct costs of corporate social activities and, where practicable, some of the indirect costs.

These kinds of classification could facilitate the identification of costs of corporate social activities. Thus, the costs of environmental pollution control activity were identified as the

(1) capital costs, (2) operating costs, (3) research and development costs, and (4) restoration costs. Moreover, the costs identified with other social activities of a business company were: (1) direct cash outlays, (2) administrative costs, (3) share of departmental overheads, (4) in some instances, capital costs incurred in certain social facilities, and (5) research and development costs. The significant components of these main items of costs identified with corporate social activities were discussed in detail in the rest of the first section of this chapter. However, it was concluded that the share of departmental overheads, as a part of the costs of other social activities of a firm, should be disregarded in accounting for corporate social performance, as this cost is usually very difficult to identify and generally immaterial in amount unless the whole department or unit has been devoted solely to social activities.

After classifying and identifying the costs of corporate social activities, their accounting treatment was discussed briefly in the second section of this chapter in accordance with generally accepted accounting principles. It was suggested that accountants should use the accrual method of accounting for costs, expenses and liabilities when accounting for corporate social responsibility performance. Moreover, it was concluded that the accounting treatment of costs of corporate social activities should not be different from the accounting for costs incurred in the regular business activities of a company.

The third and last section of this chapter dealt with the reporting aspects of the costs of corporate social activities. It was proposed that the traditional accounting reporting system be expanded to show separately the costs of corporate social activities.

It is believed that all users of corporate reports would benefit from separate disclosures of such costs within the conventional financial statements of a business company.

Thus, it was concluded that costs of corporate social activities should be disclosed as separate items in the income statement, balance sheet and statement of source and application of funds of a business company. Illustrations of these financial statements showing separately the costs of corporate social activities were presented. Furthermore, supplementary schedules or notes to financial statements displaying more details on these separate disclosures were also suggested. In addition, a supplemental report, to be called the "Social Responsibility Report", "Social Performance Report" or other terms of similar import, was proposed. This report is to include statistical data, indicators of performance in the areas of corporate social responsibility and all other information relating to social activities of a business company. It is believed that such a report, in addition to the reporting of costs of social activities as separate items within the traditional financial statements, will assist the users of corporate reports in evaluating the social performance of the reporting company. Examples of these statistical data, social indicators and additional social information are presented in Table 7.7 in the next chapter.

The next chapter will present the results of a survey of the current reporting practice as it pertains to corporate social responsibility performance.

CHAPTER VII

ACCOUNTING FOR CORPORATE SOCIAL RESPONSIBILITY PERFORMANCE : A SURVEY OF THE CURRENT REPORTING PRACTICE

The preceding chapters reviewed the current state of the literature of accounting for corporate social performance. They dealt with the areas of corporate social responsibility to be covered in corporate social reporting; the socially responsible activities which are required by law and governmental regulations; the need for, and the concept of, corporate social performance accounting; approaches for measuring and reporting the social performance of a business organisation; the cost concepts of corporate social responsibility accounting; and the measurement of, and reporting on, the costs of corporate social responsibility performance.

In this chapter, the current state of corporate social reporting practice, in the United Kingdom, will be surveyed. The analysis and findings of a survey of annual reports and accounts of 207 companies of the top 265 of the largest U.K. industrial companies of the 1977/1978 Times 1000, as ranked by turnover, will be summarised and presented in this chapter, and the details of the survey for each of these companies will be appended to this thesis.[1] The survey enquires into the areas of social responsibility in which British companies are actually involved and are disclosing information about their performance in their annual reports and accounts; the measurement methods of social responsibility disclosure which are being used in each of those areas; the approximate number of pages devoted to corporate social responsibility disclosure; and the locations of social responsibility disclosure in the annual reports and accounts.

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[1] Appendix 3

Examples illustrating the measurement and reporting types of corporate social responsibility performance are also given in this chapter.

This chapter contains four main sections. The survey approach and limitations of that approach are discussed in Section 1. Also included in this section is an analysis of the companies, whose annual reports and accounts are surveyed, by type of industry. Section 2 summarises the major findings of the survey. The results of the survey, with a detailed listing of corporate socially responsible activities used in the survey and the number of companies making disclosure in each of those activities, are presented in Section 3. Extracts from the annual reports and accounts, illustrating the different methods used by British companies for measuring and reporting social performance, are shown in Section 4.

1. The Survey Approach

The Sample

The survey is based on an analysis of the most recent annual reports and accounts of 207 companies of the top 265 of the largest U.K. industrial companies, as ranked by turnover in the 1977/78 Times 1000. The decision to choose the sample from the biggest British industrial companies is based on the hypothesis that their impact on the British society is considerably greater than that of smaller companies, and that therefore many social pressures are directed mainly towards these bigger companies. Furthermore, large companies, as previously discussed, have the required technology, expertise, management skills and financial resources to cope with social problems. Hence, they are expected to be more socially active.

On the other hand, the decision to select corporate reports and accounts as a source of information is based on the following assumptions.

Firstly, as a relatively new area of business concern, empirical information on corporate social responsibility performance is - with the exception of philanthropy, the traditional field of corporate social responsibility - not available.

Secondly, an empirical study investigating the actual behaviour of companies in the areas of corporate social responsibility, therefore, would seem to be the best approach with regard to the validity of data. Such a study, however, especially a lengthwise investigation which attempted to be more than just a series of case reports, would require research efforts, time and financial support far beyond what is usually available to an individual researcher.

Thirdly, the annual report and accounts are one of the most important means by which a company communicates its activities and intentions to its shareholders, employees, other parties and the general public. Thus, the degree to which companies are disclosing information on their social responsibility performance in their annual reports and accounts appears to be a reasonable indicator of the general awareness and perception of the business community concerning its social role in the British society.

A study published in 1976[2] concluded, on the basis of a review of the annual reports and accounts of fourteen American companies considered as being outstanding in the field of social responsibility, that a relationship exists between the disclosure of social informa-

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[2] Edward H. Bowman and Mason Haire, "Social Impact Disclosure and Corporate Annual Reports", Accounting, Organizations and Society, Vol.1, No.1, 1976, pp.11-21

tion in the annual report and accounts and a company's involvement in socially responsible activities. The authors concluded that a socially active company discloses more social information in its annual report and accounts than one which is not socially active.[3]

However, that conclusion, of the above mentioned study, can only be taken with great care, as a general indication, for many reasons. First, the sample of fourteen company annual reports and accounts used in that study is too small to draw such general conclusions. Another reason is that the American reporting practice, with regard to social responsibility disclosure, is different from the British reporting practice, due to variations in the areas of social interest and the social information which are legally required in each of the two countries.

The third reason is that the company annual report and accounts, though one of the most important and appropriate means, is not the only way by which a company may disclose information on its social responsibility performance. There are several other means by which a company may publish information on its social performance. These means include the press report of the shareholders meeting, interim reports, separate publications on corporate social responsibility, press releases and filings with governmental agencies or departments. Any of these alternatives may be used in addition to, or in place of, the annual report and accounts. Thus, it cannot be concluded that companies with comparatively little or no social responsibility disclosure in their annual reports and accounts are not as socially active.

For example, the Boots Company Limited published in 1978 a

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[3] Ibid., p.21

separate report entitled "Social Responsibilities"[4] which was intended to be a statement of the Company's board policy or philosophy. In this publication, the board of the Boots Company outlined the company's social responsibilities towards its employees, the environment, the local community, the customers, suppliers and contractors, and shareholders.

Also, under the title "Our Responsibilities to Society", the Chairman of the Ever Ready Company stated, in his review in the Company's Annual Report and Accounts of 1978, that the board recognises the social responsibilities they have, not only to the shareholders, but to all the employees, customers, other parties and the general public. He further declared that the company has as a consequence issued a document to all its subsidiary companies in Britain and abroad outlining the board's views on their responsibilities to society world-wide for the guidance of management.[5]

On the other hand, the annual reports and accounts of the Boots Company and Every Ready Company discuss briefly the same social responsibility disclosures as are made in separate reports published by these two companies. Moreover, those separate publications are referred to in the annual reports and accounts of those companies. Additionally, it has been found in the course of the survey that 21.84% of companies surveyed (45 companies out of 207) have made references in their annual reports and accounts to separate reports sent to the Department of Trade containing information on the companies' employment practices in South Africa.

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[4] The Boots Company Limited, "Social Responsibilities", (Nottingham: The Boots Company, July 1978)

[5] Every Ready Company (Holdings) Limited, "Annual Report and Accounts 1978", (London: The Ever Ready Company, 1978), p.27

But some other social responsibility disclosures made through ways other than the annual reports, are not referred to in the annual reports and accounts. For example, an advertisement by Metal Box Company in The Times, 23rd June 1978,[6] indicated that the company is fully concerned about the problem of solid waste pollution, caused to the environment by discarded tins, and also about the conservation of natural resources (the tin and steel used in the manufacturing process of cans). The advertisement stated that the company has, jointly with British Steel and Batchelor Robinson, established Material Recovery Limited to recover and recycle used cans.

As another example, the Unilever's submission to the Wilson Committee to Review the Functioning of U.K. Financial Institutions,[7] has stated that one of the company's objectives in deciding to invest is "to meet improved safety and environmental requirements".[8] This report further recognises corporate social responsibility as a constraint on the profitability criterion when it says: "..., quite substantial investment is necessary in projects which give no financial return at all. Examples are basic services, e.g. a new boiler or an improved canteen, and safety/environmental expenditure. There are also social considerations to be taken into account".[9]

Furthermore, some companies may believe that, while they should be socially responsible, there is no need to be open to public criticism by disclosing information in the annual reports and accounts, or by any other means, about their actions in the new and still unsettled field of corporate social responsibility. Such companies

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6 The Times, 32rd June, 1978, p.18

7 Unilever Limited, "Unilever's Submission to the Wilson Committee", (London: Unilever Limited, 24th May, 1977)

8 Ibid., p.2

9 Ibid., p.3

may be opposing the idea of social reporting, but not the assumption of corporate social responsibility. The researcher believes that most British companies are actually involved in more socially responsible activities than is disclosed in their annual reports and accounts. For one thing, some socially responsible activities should be carried out by most companies simply because they are required by law or governmental regulations, but disclosing information about the performance of such activities is not yet legally required. Examples of these activities include adopting non-discriminatory policy in the recruitment, employment and advancement of women and minority groups; the employment of disabled and rehabilitated persons; ensuring health and safety of all employees at the place of work; avoiding environmental contamination; adopting fair trading practices; and maintaining product safety.

Accordingly, the relationship between socially responsible conduct and social responsibility disclosure in the annual reports and accounts is still undetermined. Therefore, caution should be used in interpreting the results of this survey. The data cannot be used as the only criterion for assessing the social responsibility performance of a business company.

Nevertheless, it has been decided to choose annual reports and accounts as the basis of this survey because these reports are the primary source of information and because the purpose of this study is not to assess the company's social responsibility performance, but simply to review the current state of practice of corporate social reporting. The sample of companies selected was drawn from the 265 largest industrial companies in the United Kingdom, as indicated by the 1977/78 Times 1000 listing.

Method of the Data-Gathering

A letter[10] was sent, in Summer 1978, to each of the 265 companies asking for a copy of the company's most recent annual report and accounts and any other information sent to shareholders, together with the annual report and accounts. Two hundred and seven annual reports and accounts (78.11% of the sample) were received, and used in the survey, until the end of March 1979. These annual reports and accounts were the most recent ones available for financial years ended on or before 30th September, 1978. All relevant documents sent with the annual reports and accounts also were analysed and any social responsibility disclosures identified were included in the survey. In contrast, social information found in other publications sent to shareholders separately from the annual report and accounts, or sent to other parties and made available to shareholders on request, were excluded. The 58 companies (21.89%), whose annual reports and accounts were not available, either did not reply at all (50 companies representing 18.87% of the sample), or replied negatively (8 companies representing only 3.02%). The reason given by those companies which replied negatively, was either that they do not make their annual reports and accounts available to the public, as they are private companies (7 companies representing 2.64%), or there are none now available as there had been such a great demand for their annual reports (only one company representing 0.38% of the sample). Naturally, those companies whose annual reports and accounts are not available, have not been included in the survey.[11]

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[10] Appendix 2 to this thesis.

[11] See Appendix 3 for a complete list of the companies represented in the sample as ranked by turnover in the 1977/78 Times 1000. This Appendix also shows the companies whose annual reports and accounts have been surveyed, and those whose annual reports and accounts are not available (as reflected by the gaps in the Tables of that Appendix).

It is worth mentioning, however, that the annual reports and accounts surveyed were received from the relatively larger companies, e.g. companies of the higher rank in the 1977/78 Times 1000. Table 7.1 below indicates that 42.51% of the annual reports surveyed (88 annual reports out of 207) were received from the first largest hundred companies; 37.68% of the annual reports surveyed (78 annual reports out of 207) were from the second hundred companies; and 19.81% (41 reports out of 207 annual reports surveyed) were received from the remainder companies (ranked from 201 to 265 in the 1977/78 Times 1000). In other words, this means that the bulk of the annual reports which are not available (24 annual reports out of 58 which represent 41.38%) was among the companies of a relatively lower rank (ranked from 201 to 265).

TABLE 7.1

Distribution of the Annual Reports Surveyed by the Company Rank:

Rank in the 1977/78 Times 1000	Annual Reports Surveyed		Annual Reports Not Available	
	Number	%	Number	%
From 1 to 100	88	42.51	12	20.69
From 101 to 200	78	37.68	22	37.93
From 201 to 265	41	19.81	24	41.38
Total	207	100.00	58	100.00

Industries represented in the Survey

Twenty-four industries were represented in the sample. Table 7.2 on page 323 shows the distribution of companies by type of industry. It indicates that the majority of companies represented in the sample (60.38%) were engaged in the manufacturing industries. Distributive trades were 21.89%. The rest of the companies were in the construc-

TABLE 7.2

Distribution of Companies by Type of Industry

Type of industry	Number of Companies	Percentage %
Agriculture, forestry, fishing	1	0.38
Mining and quarrying	5	1.89
Manufacturing		
Food, drink and tobacco	36	13.58
Coal and petroleum products	9	3.40
Chemicals and and allied industries	16	6.04
Metal manufacture	10	3.77
Mechanical engineering	21	7.92
Instrument engineering	3	1.13
Electrical engineering	15	5.66
Shipbuilding and marine engineering	1	0.38
Vehicles	9	3.40
Metal goods not elsewhere specified	6	2.26
Textiles	4	1.51
Leather, leather goods and fur	1	0.38
Clothing and footwear	2	0.75
Bricks, pottery, glass, cement, etc.	8	3.02
Timber, furniture, etc.	1	0.38
Paper, printing and publishing	11	4.15
Other manufacturing industries	7	2.64
Total (manufacturing industries)	160	60.38
Construction	14	5.28
Transport and communication	11	4.15
Distributive trades	58	21.89
Insurance, banking, finance and business services	8	3.02
Miscellaneous services	8	3.02
Total sample	265	100.00
Reports not available	(58)	(21.89)
Total Annual Reports and Accounts Surveyed	207	78.11

tion industry (5.28%); transport and communication (4.15%); insurance, banking, finance and business services (3.02%); miscellaneous services (3.02%); mining and quarrying (1.89%); and agriculture, forestry and fishing industries (only o.38%).

To ensure comparability, the Standard Industrial Classification[12] was adopted in this study in classifying the companies chosen in the sample, by type of industry. However, such distribution of the companies of the sample, as exhibited in Table 7.2, was not a simple task. Some companies were engaged in only one main activity, or some related activities, and there was, of course, no problem in classifying each of these companies under the proper kind of industry. But others were engaged in too diversified activities which makes it difficult to classify each of those companies under a single heading of the minimum list of headings of the Standard Industrial Classification. Nevertheless, these companies were grouped under the types of industry according to the main activity of each company as described by the company in its directors' report, or as represented by the biggest figure of sales (or trading profit), in the analysis of sales (or trading profit) by activities, in the company's annual report and accounts.

Identifying the Areas of Corporate Social Reporting

The socially responsible activities used in the survey to define corporate social reporting were grouped in six main areas, as is indicated in Table 7.3 on page 335. These areas of social responsibility disclosure, Table 7.3, include: (1) employment practices; (2) environmental pollution control; (3) energy and natural resources

[12] Central Statistical Office, "Standard Industrial Classification" revised edition, (London: Her Majesty's Stationery Office, October 1968.) Also see: "Standard Industrial Classification-Alphabetical List of Industries", revised 1968, Second Impression 1974, (London: Her Majesty's Stationery Office)

conservation; (4) community involvement; (5) fair trading practices; and (6) other social responsibility disclosures.

Moreover, the detailed activities of social responsibility disclosure, in each of these six main areas, are shown in Table 7.7 on pages 350-356. The first main area of social activities is the internal area of the company's social responsibilities towards its employees and working conditions. It is believed that this area of employment practices is the most important area of a company's social performance as it relates directly to the well-being of the employees and hence to the welfare of the company itself in terms of improved productivity and profitability. The area of employment practices contains social activities which should be undertaken by all companies, either because they are required by law, or because they are, although not legally required, important for the business if good employee relations and industrial relations are to be maintained. Examples of corporate social activities required by law include the recruitment, employment, training and advancement of women, minority groups, disabled persons and former prisoners; securing the health and safety of all employees at the place of work; and providing enhanced pension schemes. Moreover, companies are required by law to disclose information, in their directors' reports, about the average number of U.K. employees and their aggregate remuneration paid during the year, and about the health and safety at work.

The other social activities in the area of employment practices, which are not legally required, include providing employees with fringe benefits, profit-sharing schemes and savings-related share option schemes; adopting training programmes for all employees; applying a policy of consultation and employees' sharing in making decisions; and maintaining good relations with the employees and their trade unions. The voluntary involvement, by a business company, in such social activities will benefit the company in terms of higher employee morale and productivity.

However, the other main areas of social responsibility disclosure are external to the company. They represent corporate social responsibilities towards the physical environment, local community, consumers and the general public.

The area of environmental pollution control, the second major area of social reporting, is becoming of growing social concern as the environmental degradation is mainly caused by business companies and therefore, they have to do something about it. All companies are now being required by law and governmental regulations to prevent all kinds of environmental pollution, such as air pollution, water pollution, land pollution and noise pollution. But the disclosure of information about the performance of a company in its annual reports and accounts, in such an important area of corporate social responsibility, is not yet legally required.

It is important to emphasise here, that when a company is found, during the course of the survey, to be clearly involved in social activities, such as environmental pollution control, as a line of business, disclosures relating to such activities have not been counted. For example, Babcock and Wilcox Limited,[13] an engineering company, and Westland Aircraft Company[14] are both involved, among other economic activities, in the manufacturing and marketing of

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[13] See: Babcock and Wilcox Limited, "Annual Report and Accounts 1977" (London: Babcock and Wilcox Company, 1977), p.3

[14] See: Westland Aircraft Limited, "Annual Report and Accounts 1978" (Yeovil, Somerset: Westland Aircraft Company, 1978), p.22

pollution control equipment. As another example, one of the main businesses of the Hargreaves Group is waste disposal. In his review, in the 1978 Annual Report and Accounts, the Chairman of the Hargreaves Group stated: "In Hargreaves Industrial Services Limited, solid waste disposal generated more business, with the Midlands operation coming into profit, albeit modest. The Clearwaste Treatment Centre at Wakefield continued to increase its throughput, but some technical problems remain, although their solution is well in sight. Clearoil again collected over one million gallons of waste oil for re-refining".[15] Such activities, however, have not been included in the survey.

The conservation of energy and natural resource in industrial companies, the third area of corporate social reporting, is not only a matter of social responsibility, but also essential if costs of operation are to be kept under reasonable control. Moreover, as the natural resources of energy and raw materials are not unlimited, the world may be confronted with an acute scarcity of basic materials needed for industry. This question came into focus in the industrialised nations when they suffered severely from the energy crisis of 1973, when Arab oil-prodicing countries embargoed oil exports in the autumn and winter of 1973-1974.

Therefore, this area of energy and natural resources conservation is becoming of increasing importance, socially as well as economically. British companies have been asked voluntarily to report on their usage of energy and natural materials and to make clear their commitment to energy and natural resources conservation.[16]

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[15] Hargreaves Group, "Annual Report and Accounts 1978", (Wetherby, West Yorkshire: Hargreaves Group, 1978), pp.6-7

[16] See: Secretary of State for Trade, "The Future of Company Reports", a Consultative Document, Cmnd. 6888, (London: Her Majesty's Stationery Office, July 1977), para. 16, p.17

In this survey, all activities related to energy and natural resources conservation have been grouped in one main area of corporate social reporting. These activities include savings of energy and natural materials resulting from utilising waste materials for energy production and from product recycling; using energy and scarce materials in production processes efficiently; and the development of new sources of energy and reducing energy consumption of the products.

The area of community involvement, the fourth area of social responsibility disclosure, is the traditional area of corporate social responsibility performance. Although the corporate involvement in philanthropic activities and local community affairs is voluntary in nature, companies are required by the Companies Act 1967 to disclose in their directors' reports, information about their contributions for charitable, educational and political purposes. Other social activities in the area of community involvement, on which a company might voluntarily disclose information in its annual reports, include donations of cash, products, or employee services to support established community activities, events, or organisations; providing summer or part-time employment for students; providing training programmes for non-employees; and providing the company's recreational facilities for public use.

The area of fair trading practices, the fifth area of corporate social reporting, is not only an important area of social responsibility, but also a vital business activity which should be carried out by a company if goodwill with the customers is to be maintained. A company has a responsibility to maintain the safety of its products and to make sure that its products are labelled, packaged and represented in such a way that the quality, quantity, hazards of use and limitations of use are clearly set forth. A company also has the responsibility to respond to consumer complaints and to improve communications with customers.

The sixth area of social reporting, that is other social responsibility disclosures, is a general category containing other social responsibility disclosures which cannot be specified under any one of the five main areas mentioned above. Examples of such social disclosures include general statements of corporate social objectives or policies; reference in the annual report to additional publications relating to the company's social responsibility; establishment of a corporate social responsibility committee; representation of consumer groups, environmentalist and conservationist groups, or other social interest groups on the company's board of directors, or as non-executive directors, or as consultative bodies; disclosures of information on investment and operations in South Africa; and other disclosures relating to corporate social responsibility performance, domestically or internationally.

Method of Calculating the Number of Pages

For individual companies, the number of pages devoted to social responsibility disclosures are calculated by adding up the number of lines of social responsibility disclosures, identified throughout both the company's annual report and accounts and any other relevant documents sent with it, and dividing the total by the number of lines, on average, included in a full page. The number of pages devoted to social responsibility disclosures are grouped in quarter-page classes, as shown in Table 7.6 on page 345, to summarise the number of companies disclosing in each of these classes and to calculate page average for all companies in the aggregate. The mid point of each quarter page class, (the summation of the two boundaries of each class divided by 2), is used in measuring page average for all companies.

It should be emphasised here that the number of pages devoted to social responsibility disclosures are measured and presented in this survey, Table 7.6, only as a general indicator of the quantity, but not the quality, of the social disclosure. This means that a company's social responsibility disclosure is not necessarily any better just because it contains a full page rather than half, or even quarter, of a page. This is obviously not the case. Moreover, the quantity of social information, as expressed by the number of pages devoted to social responsibility disclosures, in annual reports and accounts, is not intended to be a complete and accurate measure reflecting the degree to which a company is involved in socially responsible activities. The disclosure of too much social information in a company's annual report and accounts may be seen as a sign of the company's awareness of its social responsibilities. But this does not apply in reverse. For the reasons discussed earlier in this section, the companies which make relatively little or no social responsibility disclosure in their annual reports and accounts cannot be considered less socially responsible, as the relationship between social responsibility involvement and social responsibility disclosure in the annual reports is still undetermined.

Limitations of the Survey

The results of this survey should be interpreted within the following limits:

First, the survey is limited to the leading 265 of the largest British industrial companies as is indicated by the Times 1000 of

1977/78. This does not mean, however, that the smaller companies, or the non-industrial companies, are not actively involved in socially responsible activities and in reporting on that involvement. The smaller and non-industrial companies, such as banks and insurance companies, could be, in some social performance areas, as socially active as the largest industrial companies.

Second, this survey of the current reporting practices was confined to the annual report and accounts, as the main source of information on the company's activities, and any other relevant documents sent to the shareholders, or to employees, together with the annual report. However, as previously discussed, the data cannot be used as the only criterion for assessing the social performance of a business company since the company can be actively involved in socially responsible activities, but does not attempt to report on that involvement, or it may report on its performance through other media than the annual report and accounts.

Third, the survey was limited to only one year's, the most recent, annual reports and accounts published for the financial years ended on or before 30th September 1978. Therefore, this survey does not reveal the consistency of social reporting over several years. However, the survey is not intended to show the increase, or decline, in the number of companies consistently making some social responsibility disclosure in their annual reports for many years.

With the above limitations in mind, the major findings of the survey will be summarised in the following section, and examined in depth in section 3. Moreover, to illustrate the different methods used by British companies for measuring and reporting social performance, examples of corporate social responsibility disclosure extracted from annual reports and accounts of sixty companies will be presented in section 4.

II. Summary of Major Findings

The major findings of the survey to determine the nature and extent of corporate efforts to account for, and report on, social responsibility performance can be summarised as follows:

1. In terms of the disclosure of social information in annual reports, there are differences in the relative importance of social performance areas. The area of employment practices is perceived by all companies as the most important, closely followed by the area of community involvement. However, far less importance is placed on the areas of environmental pollution control and conservation of energy and natural resources. The area of fair trading practices represents the area of least importance in the current reporting practice by British companies.

2. The law and governmental regulations play an important role for the disclosure of information on the corporate social responsibility performance. Almost all companies disclose in their annual reports the social information which is legally required, such as the average number of U.K. employees and their aggregate remuneration, and the charitable, educational and political contributions.

3. Apart from that legally required information, most companies do not account for, and report on, the costs and benefits of their socially responsible activities. No accounts give financial or cost information which would not normally be given or could be calculated from the published accounts. Moreover, in the area of employment practices, there is no evidence that

employees were being provided with information in excess of statutory requirements. Such additional information as did appear was confined mainly to labour statistics or qualitative statements about employee relations and industrial relations. In the other areas of social responsibility, the disclosure of social information was mostly qualitative.

4. Closely associated with the preceding points is that no social responsibility disclosure of any kind is made by any company in the body of financial statements. The most frequent locations for social information are in the directors' report, chairman's statement, or in other parts of the annual corporate report.

5. In general, the number of pages devoted to social responsibility disclosure, in the annual reports and accounts, is extremely limited. The vast majority of companies devote less than half of a page to the disclosure of social information in their annual reports.

6. Almost all companies do not include representatives of employees, consumer groups, environmentalist and conservationist groups, or other social interest groups on their boards of directors. Moreover, they do not, with only one exception, have a social responsibility department, unit, or committee to conduct and report on the company's performance in socially responsible activities.

7. However, the survey reveals that the approaches for measuring and reporting social performance, which have been discussed in Chapter IV, are used to some degree. Of those approaches used, the inventory listing of the company's social activities is most common, followed in order of use by measurements of costs of such activities together with quantitative, but non-monetary, information relevant to corporate social performance. The least-used approach is a programme management approach, and measurement of both the costs and benefits of socially responsible activities is not used by any company in the real sense of a cost-benefit approach as discussed in Chapter IV.

III. The Results of the Survey

Areas of Social Responsibility Disclosure

The results of this survey show that the leading British industrial companies have made some effort to measure and report on the social responsibility activities they have undertaken. This effort, however, was concentrated in the traditional areas of a company's social responsibility towards its employees and local community. The new emerging areas of corporate social responsibility, namely environmental pollution control, energy and natural resources conservation, and fair trading practices, have comparatively received less attention by the British companies in their current reporting practices. Table 7.3 below presents the areas of social responsibility disclosure as well as the number and percentage of companies disclosing in each of those areas.

TABLE 7.3

Areas of Social Responsibility Disclosure

Areas of Social Responsibility	Companies Disclosing Number	Percentage %
1. Employment practices	207	100.00
2. Environmental pollution control	24	11.59
3. Energy and natural resources conservation	20	9.66
4. Community involvement	206	99.52
5. Fair trading practices	18	8.70
6. Other social responsibility disclosures	127	61.35

Table 7.3 indicates that all companies surveyed, without exception, (207 companies representing 100%) disclosed social information about their performance in the area of employment practices. It

also indicates that all companies surveyed, except one, (206 companies out of 207 which represent 99.52%) reported on their social performance in the traditional area of community involvement. This means that these two areas of employment practices and community involvement were perceived by British companies as the most important areas of corporate social responsibility. The reason for this, the researcher believes, is that the disclosure of information in a company's directors' reports about its performance in some activities in these two main areas, as mentioned earlier, is required by law. This, however, supports the researcher's viewpoint that legislation and enforcement have played and will continued to play, important roles for the expansion of the accounting and reporting on corporate social responsibility performance.[17] That researcher's viewpoint is also supported by the relatively very small number of companies disclosing information, in their annual reports, about their performance in the areas of environmental pollution control, energy and natural resources conservation and fair trading practices, where the disclosure of such information is not yet legally required, although the involvement by British companies in some of these social areas, as previously mentioned, is required by law or governmental regulations.

Moreover Table 7.3 shows that 11.59% of companies surveyed (24 companies out of 207) reported on their performance in the area of environmental pollution control; 9.66% of companies surveyed (20 companies out of 207) reported in the area of energy and natural resources conservation; and 8.70% of companies surveyed (only 18 companies out of 207) disclosed information in their annual reports and accounts, about their actions in the area of fair trading practices. It further shows that 61.35% of companies surveyed (127 com-

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[17] See Chapter 2 of this thesis, especially pp.17-20.

panies out of 207) made other social responsibility disclosures. The topics of those "other social responsibility disclosures" and the number of companies disclosing under each of such topics, as well as detailed activities in each of the other major social performance areas and the number of companies disclosing in each of those activities, are shown in Table 7.7 on pages 350-356.

It is worth noting, however, from Table 7.3, that consumer affairs, or fair trading practices, represented the area of least disclosure in the current reporting practices in the United Kingdom. The reason for this, as previously discussed, is that the area of consumerism has always been considered a very difficult one. The results of this survey, as is indicated in Table 7.3, supports that claim.[18]

Measurement Methods of Social Responsibility Disclosure

Social responsibility disclosure may be measured narratively (qualitatively), or quantitatively. The quantification of social disclosure, in turn, may be expressed in monetary terms or non-monetary terms. However, this survey revealed that there is a lack of standards and guide-lines for measuring and reporting on socially responsible activities. While some companies, in some areas of social responsibility disclosure, used these methods of measurement in conjunction, some other companies, in some other social performance areas, used them as alternatives. Table 7.4 on page 338, shows the methods of measurement used in each area of social responsibility disclosure as well as the number and percentage of companies using each of these methods. Moreover, examples of using these methods in corporate social reporting will be presented in the following section of this chapter.

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[18] See Chapter 2 of this thesis, especially pp.50-52.

TABLE 7.4

Measurement Methods of Social Responsibility Disclosure

Areas of Social Responsibility Disclosure	Method of Measurement					
	Qualitative		Quantitative			
			Monetary		Non-monetary	
	Number	%	Number	%	Number	%
1. Employment practices	133	64.25	206	99.52	206	99.52
2. Environmental pollution control	23	11.11	4	1.93	-	-
3. Energy and natural resources conservation	18	8.70	6	2.90	1	0.48
4. Community involvement	19	9.18	205	99.03	3	1.45
5. Fair trading practices	17	8.21	1	0.48	-	-
6. Other social responsibility disclosures	126	60.87	5	2.42	5	2.42

Table 7.4 shows that the internal area of employment practices reflected the most important area of social responsibility disclosure, quantitatively as well as qualitatively. The table indicates that 99.52% of companies surveyed (206 companies out of 207) quantified their social responsibility disclosures, in the area of employment practices, monetarily and non-monetarily. This is not surprising since the disclosure of information about the average number of people employed by a company in Britain and their aggregate remuneration paid during the year, as mentioned earlier, is required by law. The table also indicates that the majority of companies surveyed (133 companies out of 207 representing 64.25%) additionally reported qualitative information about their performance in the area of employment practices. This is additional evidence that the area of employment practices was perceived by British companies as the most important. The second important area of social responsibility disclosure, in terms of quantification, is the area of community involvement.

Table 7.4 shows that 99.03% of companies surveyed (205 companies out of 207) reported on their involvement in the local community affairs in monetary terms. The most likely explanation for this high percentage is, once again, that companies are required by law to include in their directors' reports information about their contributions for educational, charitable and political purposes. The table further indicates that 1.45% of companies surveyed (only 3 companies out of 207) disclosed in their annual reports, quantitative, but non-monetary, information about their actions in the area of community involvement. Moreover, 9.18% of companies surveyed (19 companies out of 207) additionally reported on their involvement in local community activities qualitatively.

Furthermore, Table 7.4 shows that the disclosure of information in the social performance areas other than employment practices and community involvement was mostly qualitative. Out of the 24 companies disclosing information on their performance in the area of environmental pollution control, as is indicated in Table 7.3, Table 7.4 shows that 23 companies (11.11% of companies surveyed) made qualitative social responsibility disclosure and four companies (1.93% of companies surveyed) quantified monetarily their social disclosure. This means that only one company (24-23) disclosed social information in monetary terms only; three companies [(23 + 4) - 24] made both qualitative and monetary social disclosure; and 20 companies (23 companies disclosing qualitatively - three companies disclosed both qualitatively and quantitatively in monetary terms) disclosed qualitative information only.

In the area of energy and natural resources conservation, Table 7.4 indicates that, out of the 20 companies reporting on their performance, as shown in Table 7.3, 18 companies (8.70% of companies surveyed) made qualitative social disclosure, six companies (2.90% of companies surveyed) quantified their social disclosure monetarily, and only one company (0.48% of companies surveyed) quantified its social disclosure non-monetarily. This is to imply that only two companies (20 - 18) reported on their performance in this area, quantitatively; five companies [(18 + 6 + 1) - 20] disclosed both qualitative and quantitative social information; and 13 companies (18 companies disclosing qualitative information - five companies disclosing both qualitative and quantitative social information) made qualitative social disclosure only.

Also indicated in Table 7.4 is that the great bulk of social responsibility disclosures in the area of fair trading practices was qualitative. This table shows that 17 companies, out of the 18 companies shown in Table 7.3, that made social responsibility disclosure in the area of fair trading practices, (8.21% of companies surveyed) disclosed qualitative information only, and the remaining company (0.48% of companies surveyed) quantified its social disclosure in monetary terms only.

Table 7.4 further indicates that the other social responsibility disclosures also were made almost qualitatively. The table shows that 126 companies, out of the 127 companies identified in Table 7.3 as making other social responsibility disclosures,(60.87% of companies surveyed) made other social disclosures qualitatively; five companies (2.42% of companies surveyed) disclosed other social information quantitavely in monetary terms; and five companies (2.42% of companies surveyed) made other social responsibility disclosures quantitatively, but in non-monetary terms. This means, however, that only one company (127 - 126) disclosed other social information quantitatively; and 126 companies made other social responsibility disclosures qualitatively, a few of which (not more than nine companies)[19] made both qualitative and quantitative social disclosures.

<u>Location of Social Responsibility Disclosure in the Annual Report and Accounts</u>

The social information disclosed in the annual reports and accounts of the companies surveyed might be located in one or more of the following statements:

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[19] [(126 + 5 + 5) - 127] = 9 companies. Or: 10 companies disclosing quantitatively (monetarily and non-monetarily) - one company disclosing quantitatively only (127 - 126) = 9 companies

(A) Chairman's, president's, or chief executive's statement.

(B) Directors' (or Management) report.

(C) Statement of accounting policies.

(D) Financial statements.

(E) Other part of the annual report in some way devoted to an aspect of social responsibility.

(F) A separate report sent to shareholders together with the annual report and accounts, or made available to shareholders, employees, or the general public on request.

These locations of corporate social responsibility disclosures in the annual report and accounts, as well as the number and percentage of companies making disclosure in each location, are shown in Table 7.5 below.

TABLE 7.5

Location of Social Responsibility Disclosure in the Annual Report and Accounts

Location in the Annual Report and Accounts	Number of Companies Making Disclosure in Each Location	Percentage %
A. Chairman's, president's or chief executive's statement	108	52.17
B. Directors' (or Management) report	201	97.10
C. Statement of accounting policies	36	17.39
D. Financial statements	Nil	-
E. Other part of the annual report in some way devoted to an aspect of social responsibility	123	59.42
F. A separate report sent to shareholders together with the annual report and accounts, or made available to shareholders, employees, or the general public on request	31	14.98

This table indicates that the vast majority of companies surveyed (201 companies out of 207 representing 97.10%) made social responsibility disclosure in their directors' reports. This is simply because directors' reports are required by law, as previously stated, to include a variety of types of social information, such as the average number of United Kingdom employees and their aggregate remuneration paid during the year; educational, charitable and political contributions; and information about health and safety at work.

Table 7.5 also shows that 52.17% of companies surveyed (108 companies out of 207) made social disclosure in the chairman's statements. The table further indicates that 17.39% of companies surveyed (36 companies out of 207) included social information in their statements of accounting policies. However, it should be emphasised here, that this social information, which has been included in the statement of accounting policies, was mainly about employee pension and retirement plans and the accounting treatment of pension funds.

It is worth noting, from Table 7.5, that there was no social responsibility disclosure made by any company in the body of financial statements. However, this is not to imply that British companies do not include, in their financial statements, the costs of social activities which they have already undertaken. Obviously, these costs of social activities, like other costs spent on any other activities, must have been included and charged against income when incurred. But the way in which financial statements were presented does not give in detail the costs and benefits of a company's social and economic performances, since the costs are often buried in summarisations which are necessary for presentation.

Nevertheless, some companies have devoted some section in their "Notes on Accounts" to highlight some social costs such as pensions and charitable contributions. Such location in the annual report, that is "Notes on Accounts", was considered in this survey as "other part of the annual report in some way devoted to an aspect of social responsibility".

Table 7.5 indicates that 59.42% of companies surveyed (123 companies out of 207) devoted other parts of the annual report to an aspect of social responsibility. These other parts of the annual report include notes on accounts, notice of annual general meeting, statutory information, review of operations, report of the non-executive directors, and a statement of the principal associated and subsidiary companies.

Furthermore, Table 7.5 shows that 14.98% of companies surveyed (31 companies out of 207) reported social information in separate reports sent to shareholders, together with the annual reports and accounts, or made available to shareholders, employees, or the general public on request. These separate reports were, in the main, annual reports for employees. The other separate reports sent to a governmental department in compliance with the law or governmental regulations, and referred to in the annual corporate reports, were not included in this table as they were not supplementaries to the annual reports and accounts. An example of such separate reports required by the U.K. government is a special report to be sent to the Department of Trade containing information about wages and conditions of African workers employed by British companies in South Africa. However, the number and percentage of companies made references in their annual reports to such special reports will be indicated in Table 7.7 on pages 350-356.

Number of Pages Devoted to Social Responsibility Disclosure

The number of pages of social responsibility disclosures, identified in the annual reports and any other relevant documents sent with them and used in this survey, were grouped in quarter-page classes. These classes, as well as the number and percentage of companies disclosing in each class, are shown in Table 7.6 below. Also shown in Table 7.6 is the average number of pages of social responsibility disclosure for all companies surveyed.[20]

TABLE 7.6

Number of Pages Devoted to Social Responsibility Disclosure

Number of Pages	Companies Disclosing	
	Number	Percentage %
0.00 - 0.25	102	49.28
0.26 - 0.50	52	25.12
0.51 - 0.75	14	6.76
0.76 - 1.00	13	6.28
Greater than 1.00	26	12.56
Total	207	100.00
Average[21]	0.44	

Table 7.6 indicates that 49.28% of companies surveyed (102 companies out of 207) devoted up to quarter of a page of the annual reports to disclose social information, and that 25.12% of companies surveyed (52 companies out of 207) devoted more than quarter of a page, but not more than half of a page, to social responsibility disclosure in their annual reports and accounts. This means that 74.40% (49.28% + 25.12%) of companies surveyed [154 com-

[20] See Appendix 3 for the number of pages devoted to social responsibility disclosure by each of the companies surveyed.

Footnote 21

The average number of pages, devoted to social responsibility disclosure, for all companies, was calculated as follows:

Classes	Companies disclosing (N) or (fi)	Class Midpoints (Xi)	Companies Disclosing × Class Midpoints (fi Xi)
0.00 - 0.25	102	0.125	12.75
0.26 - 0.50	52	0.38	19.76
0.51 - 0.75	14	0.63	8.82
0.76 - 1.00	13	0.88	11.44
Greater than 1.00	26	1.505	39.13
Total	207		91.90

If:

$$\overline{X} = \frac{\sum_{i=1}^{N} fi\ Xi}{\Sigma fi}$$

where

$\overline{X}$ = Average

fi = Number of companies disclosing social information in each class

X_i = Class midpoint

N = Number of companies disclosing social information

Σfi = Total number of companies surveyed

Then:

$$\text{Average} = \frac{91.90}{207} = 0.44 \text{ (approximately)}$$

The class midpoint is the summation of the two boundaries of each class divided by 2, and the two boundaries of the last class, that is greater than 1.00, were considered 1.01 - 2.00 since the bulk of companies in that class (19 companies out of the 26) devoted from one to two pages to social disclosure.

panies (102 + 52) out of 207] devoted to social responsibility disclosure not more than half of a page in their annual reports.

On the other hand, Table 7.6 shows that only 6.76% of companies surveyed (14 companies out of 207) disclosed social information in more than half of a page, but not more than three quarters of a page, in their annual reports; only 6.28% of companies surveyed (13 companies out of 207) reported social information in more than three quarters of a page, but not more than one page; and 12.56% of companies surveyed (26 companies out of 207) devoted more than a full page in their annual reports, to disclose information about their social performance. This means that only 25.60% (6.76% + 6.28% + 12.56%) of companies surveyed [53 companies (14 + 13 + 26) out of 207] devoted more than half of a page in their annual reports, to social responsibility disclosure.

Thus, it can be concluded, from Table 7.6, that while 25.60% of companies surveyed (53 companies out of 207) devoted more than half of a page in their annual reports, to social responsibility disclosure, the vast majority of companies surveyed (74.40%) devoted less than half of a page in their annual reports to the disclosure of social information. Moreover, the number of pages devoted to social disclosure by individual companies, in their annual reports and accounts, was averaged out to less than half of a page (0.44 page approximately). This average number of pages devoted to social responsibility disclosure, which is 0.44, appears to be too small when it is compared with the total number of pages contained in an annual corporate report.

Based on the 207 annual reports and accounts surveyed in this study, the total number of pages contained in an annual report ranged from 13 to 64, and the average number of pages was 32.08.[22] Thus, the number of pages devoted to social responsibility disclosure averaged out to 3.38% of the smallest annual report ($\frac{0.44}{13} \times 100$), and shrank to only 0.69% of the largest annual report ($\frac{0.44}{64} \times 100$). On the whole, the number of pages devoted to social responsibility disclosure represents only 1.37% of the average annual report ($\frac{0.44}{32.08} \times 100$). The likely reason for this low rating is that the annual report and accounts is still seen by the company's directors as a financial report to the shareholders on the economic performance of the company, rather than a comprehensive report on the total performance of the company, socially as well as economically.

Detailed Activities of Social Responsibility Disclosure

Table 7.7 on pages 350 - 356 shows the detailed activities of corporate social responsibility disclosure as well as the number and percentage of companies disclosing in each of these activities. It indicates, in detail, the social activities covered by annual reports and accounts in each of the six major areas of social responsibility

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[22] The average number of pages contained in an annual report was calculated as follows:

$$\bar{X} = \frac{1}{N} \sum_{i=1}^{N} Xi$$

where:

$\bar{X}$ = Average
N = Number of annual reports and accounts surveyed
Xi = Number of pages contained in each annual report
ΣXi = Total number of pages contained in all annual reports surveyed

The total number of pages contained in all annual reports and accounts surveyed was 6641, and the number of annual reports and accounts surveyed was 207. Using the above notation, then

$$\text{Average} = \frac{1}{207} \times 6641 = 32.08$$

disclosure which were presented briefly in Table 7.3. However, it should be noted that the aggregate number of companies disclosing in all activities detailed in Table 7.7 in any one of the six main areas does not necessarily equal the number of companies disclosing social information in that particular area which was indicated in Table 7.3, since a company may report on one or more activity in a social performance area.

In the area of employment practices, Table 7.7 shows that 99.52% of companies surveyed (206 companies out of 207) made general disclosure of the average number of U.K. employees and their aggregate remuneration paid during the year, as the disclosure of such information is required by law. However, although discrimination, on the grounds of sex, colour, race, ethnic or national origin, in employment and advancement, is forbidden by law, a relatively very few companies disclosed social information on their performance in the activities of employment and advancement of women and minority groups. The table indicates that 1.93% of companies surveyed (four companies out of 207) disclosed the percentage or number of women in the work force; 0.48% of companies surveyed (only one company out of 207) disclosed the percentage or number of women in managerial and supervisory positions; 2.42% of companies surveyed (five companies out of 207) made general qualitative disclosure on sex equality; and only 1.45% of companies surveyed (three companies out of 207) disclosed general qualitative information on race equality.

Moreover, non-discriminatory policies in employment and advancement of disabled persons and ex-convicts are, as previously mentioned, ensured by legislation. But Table 7.7 shows that only

TABLE 7.7 Detailed Activities of Social Responsibility Disclosure

Detailed Activities of Social Responsibility	Companies Disclosing Number	Companies Disclosing Percentage %
1. Employment Practices		
11. General disclosure about the average number of U.K. employees and their aggregate remuneration paid during the year	206	99.52
12. Employment and advancement of women:		
121. Disclosing the percentage or number of women in the work force	4	1.93
122. Disclosing the percentage or number of women in managerial and supervisory positions	1	0.48
123. General qualitative disclosure on sex equality	5	2.42
13. Employment and advancement of minority groups:		
131. Disclosing the percentage or number of employees from minority groups in the work force	Nil	-
132. Disclosing the percentage or number of employees from minority groups in managerial and supervisory positions	Nil	-
133. General qualitative disclosure on race equality	3	1.45
14. Employment and advancement of disabled persons:		
141. Disclosing the percentage or number of disabled persons in the work force	1	0.48
142. Disclosing the percentage or number of disabled persons in managerial and supervisory positions	Nil	-

TABLE 7.7 (cont.)

Detailed Activities of Social Responsibility	Companies Disclosing	
	Number	Percentage %
1. Employment practices (cont.)		
14. 143. Disclosing the company's compliance with the statutory quota of 3%	Nil	-
144. General qualitative disclosure on employment and advancement of disabled persons	Nil	-
15. Employment and advancement of former prisoners:		
151. Disclosing the percentage or number of ex-prisoners in the work force	Nil	-
152. Disclosing the percentage or number of ex-convicts in managerial and supervisory positions	Nil	-
153. General qualitative disclosure on employment and advancement of former prisoners	Nil	-
16. Health and safety at work:		
161. Disclosing the number of fatal accidents happening during the year	4	1.93
162. Disclosing the number of industrial injuries and diseases	11	5.31
163. Disclosing time lost during the year because of accidents	6	2.90
164. Disclosing full costs of accidents (including costs of working hours lost, costs of damage to plant, investigation costs, and compensation paid to all parties involved)	Nil	-
165. Disclosing total research and development expenditure on safety and health at work	Nil	-
166. Establishment of a safety department or committee	25	12.08

TABLE 7.7 (cont.)

Detailed Activities of Social Responsibility	Companies Disclosing Number	Percentage %
1. Employment Practices (cont.)		
16. 167. Disclosing a policy on health and safety of all employees at work	4	1.93
168. General qualitative disclosure on health and safety at work	42	20.29
17. Other disclosures relating to employment practices:		
171. Fringe benefits provided for employees	15	7.25
172. Pensions and enhanced pension schemes	109	52.66
173. Disclosing information on training programmes for all employees	35	16.91
174. Disclosing the number, or costs, of working days lost during the year as a result of industrial disputes	18	8.70
175. Disclosure of employee representation on the company's board of directors	2	0.97
176. Disclosure of employee participation in decision-making process	33	15.94
177. Disclosure of employees' profit-sharing scheme, or savings-related share option scheme	25	12.08
178. General qualitative disclosure on employee-relations or industrial relations.	57	27.54
2. Environmental Pollution Control		
21. Disclosure of all capital, operating, research and development, and monitoring expenditure for the abatement of air pollution, water pollution, land (or solid waste) pollution, and noise pollution	4	1.93

TABLE 7.7 (cont.)

Detailed Activities of Social Responsibility	Companies Disclosing Number	Companies Disclosing Percentage %
2. Environmental Pollution Control (cont.)		
22. Disclosure of total expenditure on land reclamation and reafforestation	Nil	-
23. General qualitative disclosure relating to environmental pollution control	23	11.11
3. Energy and Natural Resources Conservation		
31. Energy conservation:		
311. Disclosing total annual expenditure on energy consumption	2	0.97
312. Disclosing energy savings resulting from utilising waste materials for energy production and from product recycling	5	2.42
313. Disclosing total expenditure on the development of new sources of energy and increased energy efficiency of products	Nil	-
314. Adopting a policy, or a programme, on energy conservation	4	1.93
315. Using energy in production process efficiently	5	2.42
316. General qualitative disclosure on the company's concern about energy shortage problems	8	3.86
32. Natural resources conservation:		
321. Using material resources in production process efficiently	1	0.48
322. Recycling of waste materials	7	3.38
323. General qualitative disclosure on the conservation of scarce materials	Nil	-

TABLE 7.7 (cont.)

Detailed Activities of Social Responsibility	Companies Disclosing Number	Companies Disclosing Percentage %
4. Community Involvement		
41. Educational and charitable contributions	205	99.03
42. Donations of cash, products, or employee services to support established community activities, events, or organisations	6	2.90
43. Providing summer or part-time employment for students of the local area	8	3.86
44. Providing training programmes for non-employees	7	3.38
45. Providing the company's recreational facilities for public use	Nil	-
46. General qualitative disclosure relating to the company's involvement in local community affairs	12	5.80
5. Fair Trading Practices		
51. Product safety		
511. Disclosing that products meet acceptable safety standards	3	1.45
512. Disclosing total research and development expenditure on the company's product safety	Nil	-
513. Establishment of a product safety unit	1	0.48

TABLE 7.7 (cont.)

Detailed Activities of Social Responsibility	Companies Disclosing Number	Companies Disclosing Percentage %
5. Fair Trading Practices (cont.)		
52. Other disclosures relating to fair trading practices:		
521. Disclosing the number of consumer complaints received during the year and the company's procedures for dealing with them	Nil	-
522. Establishment of a consumer affairs department or committee	Nil	-
523. Disclosure of complete and clear information on product quality, methods of use, limitations of use, hazards of misuse and quantity of contents	2	0.97
524. Disclosure of quality improvement of products and services	10	4.83
525. Truth in labelling and advertising	2	0.97
526. Disclosure of information on other sort of communication with customers	2	0.97
6. Other Social Responsibility Disclosures		
61. General disclosure of corporate social objectives or policies	5	2.42
62. Reference in the annual report to additional publications, relating to the company's socially responsible activities, sent to shareholders together with the annual report, or made available to shareholders, employees or the general public on request	45	21.74
63. Establishment of social responsibility committee	1	0.48

TABLE 7.7 (cont.)

Detailed Activities of Social Responsibility	Companies Disclosing Number	Companies Disclosing Percentage %
6. Other Social Responsibility Disclosures (cont.)		
64. Disclosure of the representation of consumer groups, environmentalist and conservationist groups, or other social interest groups on the company's board of directors, or as non-executive directors, or as consultative bodies	Nil	-
65. Disclosure of information on investment and operations in South Africa	117	56.52
66. Disclosing the company's awareness of its social responsibilities generally, or of one of the social problems, such as alcoholism, specifically	14	6.76

one company out of the 207 companies surveyed (0.48%) disclosed the number of disabled persons in its labour force. No other social information was reported by any company, about employment and advancement of disabled persons and former prisoners. It can be concluded, therefore, that companies should be required by law not only to carry out such social activities, but also to report on their performance in these activities, if accounting for corporate social responsibility is to be more rapidly developed.

The disclosure of information on health and safety of all employees at work was relatively more than that of employment and advancement of women, minority groups, disabled persons and former prisoners, but far less than was expected in such an important activity of corporate social responsibility. The table indicates that 1.93% of companies surveyed (four companies out of 207) published the number of fatal accidents happening during the year; 5.31% of companies (11 companies out of 207) reported the number of industrial injuries and diseases; 2.90% of companies surveyed (six companies out of 207) disclosed the time lost during the year because of accidents; only 1.93% of companies surveyed (four companies out of 207) disclosed a policy on health and safety at work; 12.08% of companies (25 companies out of 207) established a safety department or committee; and 20.29% of companies surveyed (42 companies out of 207) made general qualitative disclosure on health and safety at work. It should be noted, from Table 7.7, that there was no disclosure at all by any company, on the costs of accidents and research and development expenditure spent on ensuring health and safety of all employees at work.

Additionally, Table 7.7 indicates that other disclosures were made by many companies in the area of employment practices. The table shows that the disclosure of information on pensions and enhanced pension schemes was made by 52.66% of companies surveyed (109 companies out of 207). It further shows that 27.54% of companies surveyed (57 companies out of 207) made general qualitative disclosure on employee-relations; 16.91% of companies (35 companies out of 207) disclosed information about training programmes for their employees; 15.94% of companies surveyed (33 companies out of 207) made disclosure on employee participation in making decisions; 12.08% of companies surveyed (25 companies out of 207) reported on employees' profit sharing scheme, or savings-related share option scheme; 8.70% of companies (18 companies out of 207) published the number, or costs, of working days lost during the year because of industrial disputes; 7.25% of companies surveyes (15 companies out of 207) disclosed information about fringe benefits provided for employees; and only 0.97% of companies surveyed (two companies out of 207) made disclosure of employee representation on the company's board of directors.

In the area of environmental pollution control, Table 7.7 indicates that only 1.93% of companies surveyed (four companies out of 207) published monetary information on their capital, operating, research and development and monitoring expenditure for the abatement of air, water, land and noise pollution; and 11.11% of companies surveyed (23 companies out of 207) made general qualitative disclosure on environmental pollution control. The table also shows that there was no disclosure made by any company on total expenditure spent on land reclamation and reafforestation.

In the area of energy and natural resources conservation, the table shows that companies reported relatively more on energy conservation than on natural resources conservation. The table indicates that the disclosure of total annual expenditure on energy consumption was made by only 0.97% of companies surveyed (two companies out of 207). It also indicates that the disclosures of both energy savings resulting from utilising waste materials for energy production and efficient use of energy in production processes, were made by 2.42% of companies surveyed (five companies out of 207) for each type of disclosure. The table further shows that 1.93% of companies surveyed (four companies out of 207)published a policy on energy conservation; and 3.86% of companies surveyed (eight companies out of 207) expressed qualitatively their concern about energy shortage problems.

Moreover, Table 7.7 shows that only 0.48% of companies surveyed (only one company out of 207) disclosed information about using material resources in production processes efficiently; and 3.38% of companies surveyed (seven companies out of 207) published information about recycling of waste materials. The table also indicates that there was no disclosure made by any company relating to a policy on the conservation of scarce materials.

In the area of community involvement, Table 7.7 shows that 99.03% of companies surveyed (205 companies out of 207) disclosed the legally required information about their educational, charitable and political contributions. Once again,it is worth noting that when the disclosure of information on a company's performance in a socially responsible activity is required by law, almost all companies make such a disclosure in their annual reports. However, the table also indicates that 2.90% of companies (six companies out of 207) published information about other donations of cash, products, or employee services to support established community activities, events, or organisations; 3.86% of companies surveyed (eight companies out of 207) disclosed information on the provision of summer or part-time jobs for students of the local area; 3.38% of companies (seven companies out of 207) published information about providing training programmes for non-employees; and 5.80% of companies surveyed (12 companies out of 207) made general qualitative disclosure on the company's involvement in local community affairs. No disclosure was made by any company about providing the company's recreational facilities for public use.

In the area of fair trading practices, the table indicates that three companies (1.45% of companies surveyed) disclosed that their products meet acceptable safety standards, and the establishment of a product safety committee was reported by only one company (0.48% of companies surveyed). The table also shows that there was no disclosure made by any company about total research and development expenditure spent on product safety; the number of consumer complaints received and how they were dealt with; and about the establishment of a consumer affairs department or committee. Nevertheless, Table 7.7 indicates that the disclosure of information on products, truth in labelling and advertising, and on communication with customers was made by two companies, not necessarily the same companies, (0.97% of companies surveyed) for each kind of disclosure. The table further shows that 10 companies (4.83% of companies surveyed) made general qualitative disclosure on quality improvement of products and services.

The sixth main area of social responsibility includes other social responsibility disclosures which cannot precisely be grouped in any one of the other five social performance areas mentioned above, as these other social disclosures are related to corporate social responsibility in general, or related to the international area of corporate social responsibility performance. Table 7.7 indicates that five companies (2.42% of companies surveyed) published social objectives or policies. It also shows that only one company (0.48% of companies surveyed) established a social responsibility committee. But, no disclosure was made by any company about the representation of consumer groups, environmentalist and conservationist groups, or other social interest groups on the company's board of directors, or as non-executive directors, or as consultative bodies.

However, it should be emphasised here, that it was found during the course of the survey that 17 companies (8.21% of companies surveyed) disclosed that the company's board of directors includes non-executive directors and that an audit committee consisting of four non-executive directors was already appointed. If these non-executive directors on the company's board comprise representatives of all groups affected by company activities, such as consumer and environmental protection groups, and the general public, as previously suggested,[23] then the interests of all groups and of society at large would be better preserved. Moreover, the researcher still believes that the audit committee including four non-executive directors, is a good base for reporting on the company's social as well as economic performance. With the increasing demand on companies to report on their social responsibility performance, the researcher thinks that

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[23] See Chapter 3 of this thesis, especially pp.103-104.

these suggestions will become closer to realities. The social responsibility committee which was already established by one company, as is indicated in Table 7.7, was set up to report on the company's social responsibility activities under the chairmanship of a non-executive director.[24] The researcher believes that if that non-executive director was a representative of society or one of its social interest groups, he would certainly bring his own social background into the running of business, through the company's board of directors, and the running of his own social responsibility committee. Moreover, the reports of such a committee will meet the information needs of the social interest groups and of the general public, the external users of those reports, as these groups and the general public were represented on the company's social responsibility committee.

However, Table 7.7 shows that 45 companies (21.47% of companies surveyed) made reference in their annual reports, to additional publications relating to social responsibility sent to shareholders together with the annual report, or sent to a governmental department and made available, on request, to shareholders, employees, or to the general public. These additional publications, referred to in the annual reports surveyed, were mainly special reports, on wages and conditions of African workers employed by those companies in South Africa, sent to the Department of Trade as required by governmental regulations. Moreover, the table indicates that 117 companies (56.52% of companies surveyed) disclosed information on investment and operations in South Africa. This does not mean that the

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[24] See The Boots Company Limited, "<u>Annual Report and Accounts 1978</u>", (Nottingham: The Boots Company, 1978), p.18

Also see: The Boots Company, "Social Responsibilities", <u>op. cit</u>.

companies which did not make reference in their annual reports to additional publications on this matter (117 - 45 = 72 companies) broke the law, since the company's annual report is not yet required by the law or governmental regulations to include such information.

Finally, Table 7.7 indicates that 14 companies (6.76% of companies surveyed) made other disclosures relating to social responsibility. These disclosures were about the company's awareness of its social responsibilities generally, or of one of the social problems specifically, such as alcoholism.

Examples of all social responsibility disclosures, in the six main areas of social activity listed in detail in Table 7.7, will be presented in the following section of this chapter in order to complete this review of the current reporting practice on corporate social responsibility performance. These examples will illustrate exactly how the leading British industrial companies have actually measured and reported on their socially responsible activities in their most recent annual reports and accounts. They will also show that however outrageous any suggested disclosure may seem, there is a good chance that some company, somewhere in this country, has done it.

IV. Examples of Social Responsibility Disclosure

Extracts from annual reports and accounts of sixty companies, illustrating the different methods of measurement and reporting in each area of social responsibility disclosure, are presented in this section. The examples chosen have been selected simply because they illustrate specific social disclosures, not because they are the best or worst examples of their kind.

The numerical designations correspond to the detailed activities of social responsibility disclosure indicated in Table 7.7 in the preceding section. The missing numerical designations in the sequence reflect the socially responsible activities in which there was no disclosure made by any one of the companies surveyed.

1. Employment Practices

11. General disclosure of the average number of U.K. employees and their aggregate remuneration:

The British Petroleum Company Limited, p.11[25]

> "The average weekly number of persons employed by the group in the UK during 1977 was 33,708 and their aggregate remuneration for that year was £165.2 million."

This was a typical example of disclosing such information in the annual reports. This is the minimum legally required information which should be disclosed by all companies in their directors' reports. However, many companies produced more statistics about their labour force, analysed by division, geographical area of operations, length of services, and/or age. The following excerpts from the annual reports exemplify such analysis of the work force.

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[25] The British Petroleum Company Limited, "Annual Report and Accounts 1977", (London: The British Petroleum Company, 1978), p.11

Alcan Aluminium (UK) Limited, p.8 [26]

"At the end of the year the numbers employed in the main operating divisions were as follows:"

	1977	1976
Alcan (UK) Ltd	1099	1084
Mill Products Division	5187	5179
Finished Products Division	2229	2017
Luxfer (UK)	333	365
Head Office and Central Services	213	195
Alcan Aluminium (UK) Ltd. Total	9061	8840

Gestetner Holdings Limited, p.6 [27]

"The number of people employed by the group at 5th November 1977 and the average number employed during the period were:"

	At 5th November 1977	Average during period
United Kingdom	4,165	4,151
Other EEC Countries	3,883	3,900
	8,048	8,051
Rest of Europe	847	833
	8,895	8,884
America	3,253	3,297
Africa, Asia and Australia	2,814	2,790
	14,962	14,971

"and many thousands more were employed by agents in more than a hundred countries on the sale and service of the group's products."

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[26] Alcan Aluminium (UK) Limited, "Annual Report and Accounts 1977" (London: Alcan Aluminium (UK) Limited, 1978), p.8

[27] Gestetner Limited, "Annual Report and Accounts 1977" (London: Gestetner Limited, 1978), p.6

Tarmac Limited, p.12 [28]

Employee Analysis	United Kingdom	Europe	Elsewhere	Total	%
Quarry products	7,641	680	575	8,896	24
Building products	3,114	1,917	-	5,031	14
Construction	10,579	-	227	10,806	30
International	257	-	4,768	5,025	14
Housing	1,672	-	-	1,672	5
Properties	17	-	-	17	-
Separate activities and Head Office	739	-	-	739	2
Nigeria	-	-	4,144	4,144	11
Totals	24,019	2,597	9,714	36,330	100
%	66	7	27	100	-

Smiths Industries Limited, Special Report, p.9 [29]

Experience and Age

Years of Service	%	Age	%
Under 5	45	Under 21	8
Over 5 but under 10	18	Over 21 but under 40	39
Over 10 but under 25	26	Over 40	53
Over 25	11		
	100		100

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[28] Tarmac Limited, "Annual Report and Accounts 1977", (Wolverhampton: Tarmac Limited, 1978), p.12

[29] Smiths Industries Limited, "Special Report", A Supplement to Annual Report and Accounts 1977, (London: Smiths Industries Limited, 1977), p.9

Hoover Limited, pp.24-25 [30]

Number of Employees, December 1977

United Kingdom:	Perivale	1,978
	Cambuslang	3,714
	Merthyr Tydfil	5,411
	Other (marketing, distribution, engineering, administration)	2,783
	Total UK	13,886
Overseas Subsidiaries:	Australia	1,072
	South Africa	312
	Austria	42
	Denmark	22
	Finland	66
	Norway	64
	Portugal	53
	Sweden	26
		1,657
Overseas Associated Companies:	Belgium	74
	France	678
	Germany	208
	Holland	21
	Italy	75
	Switzerland	65
		1,121
		16,664

United Kingdom Employees, December 1977

Length of Service:	Under 5 years	5,883
	5-10 years	3,983
	10-15	1,202
	15-20	1,192
	20-25	820
	25-30	592
	30-35	133
	35-40	91
	40-45	37
	45-50	3
		13,886
Age Group:	Under 20 years	389
	20-25 years	1,057
	25-20	1,589
	30-35	1,663
	35-40	1,627
	40-45	1,816
	45-50	1,855
	50-55	1,849
	55-60	1,432
	60 and over	609
		13,886

[30] Hoover Limited, "Annual Report and Accounts 1977" (Middlesex: Hoover Limited, 1978), pp.24-25

12. Employment and advancement of women:

121. Disclosing the percentage or number of women in the work force:

Hargreaves Group, Employee Report 1978 [31]

"One of our main assets is the 327 people employed in the company, of which 34 are female and 293 are male."

W.H. Smith and Son (Holdings) Limited, p.25 [32]

	Total	Male	Female	Retailing %	Wholesaling %	Other %
United Kingdom:						
Full time	11,623	5,677	5,946	54.9	28.8	16.3
8-29 hours per week	7,776	1,235	6,541	90,7	8.5	0.8
Less than 8 hrs per week	360	115	245	81.1	18.3	0.6
	19,759	7,027	12,732	69.5	20.6	9.9
Europe	86	25	61	100.0	-	-
Canada	447	72	375	81.6	5.0	13.4
	20,292	7,124	13,168	69.9	20.1	10.0

122. Disclosing the percentage or number of women in managerial and supervisory positions:

Standard Telephones and Cables Limited, Report to Employees 1977, p.33 [33]

"Women in the Company:

Women make up 36 per cent of our employees, and the table shows the percentage of women in each of the nine job categories described in the page 30 chart. Compared with other large companies in the engineering industry, STC has a higher percentage of women in every job category. It is interesting to note that the prospects for responsibility and advancement in STC are much better than in the average engineering company. STC not only has more women doing operator jobs, but has four times the proportion of women supervisors."

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[31] Hargreaves Group, "Employee Report 1978", A Supplement to Annual Report and Accounts 1978, (Wetherby, West Yorkshire: Hargreaves Group, 1978)

[32] W.H. Smith and Son (Holdings) Limited, "29th Annual Report and Accounts 1978", (London: W.H. Smith and Son (Holdings) Limited, 1978)., p.25

[33] Standard Telephones and Cables Limited, "STC Report to Employees 1977", (London: Standard Telephones and Cables Limited, 1978) p.33

Percentage of women in each job category:

Job Categories	STC	Engineering Industry (companies with more than 1000 employees)
	%	%
Managers	1.0	0.6
Scientists and Technologists	3.3	1.9
Technicians and Technician Engineers	3.3	1.9
Administrative and Professional Staff	16.4	12.1
Clerks, Office Machine Operators, Secretaries and Typists	70.9	59.7
Supervisors	25.1	5.6
Craftswomen	0.1	0.1
Operators	48.0	28.8
Other jobs	24.8	12.7

123. General qualitative disclosure on sex equality:

F.W. Woolworth & Co., p.10 [34]

"Equal opportunities:

Our sole criterion for selection and promotion is suitability for the job, regardless of sex, race or religion."

13. Employment and advancement of minority groups:

133. General qualitative disclosure on race equality:

Marks and Spencer Ltd., p.26 [35]

"The Company's Employment Policy - Equal Opportunities: The sole criterion for selection or promotion in the Company is suitability for the job. The highest positions are open to all - we do not discriminate on the grounds of colour, race, religion or sex."

[34] F.W. Woolworth and Co., Limited, "Annual Report and Accounts 1978", (London: F.W. Woolworth and Co., 1978), p.10

[35] Marks and Spencer Ltd., "Annual Report and Accounts 1977", (London: Marks and Spencer Ltd., 1977), p.26

14. Employment and advancement of disabled persons:

141. Disclosing the percentage or number of disabled employees in the work force:

Smiths Industries Limited, Special Report, p.9 [36]

"The company currently employs 395 registered disabled persons which is just over 2% of total numbers employed."

16. Health and safety at work:

161. Disclosing the number of fatal accidents happening during the year:

The British Printing Corporation Limited, p.9 [37]

"I am pleased to report that no serious accidents or fatalities occurred during the year. We constantly seek to increase the awareness of employees to potential hazards and the need for accident prevention."

Tube Investments Limited, Report to Employees [38]

"Health and Safety at Work:
In 1977 the whole TI Group, including British Aluminium and Round Oak Steel Works, recorded a figure of 41.3 reportable accidents per thousand works employees. These are the figures generally used to establish a trend and the figures over the last five years have been:

1973	47.5
1974	47.3
1975	43.3
1976	42.8
1977	41.3

Regrettably there was one fatality during the year in British Aluminium."

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[36] Smiths Industries Limited, "Special Report", op. cit, p.9

[37] The British Printing Corporation Limited "Annual Report and Accounts 1977", (London: The British Printing Corporation Limited, 1978), p.9

[38] Tube Investments Limited, "TI 1977 Report to Employees", (London: Tube Investments Limited, 1978), unnumbered page.

162. Disclosing the number of industrial injuries and diseases; and

163. Disclosing time lost during the year because of accidents:

Mobil Oil Company Limited, p.5 [39]

"Each accident or near accident is fully investigated and appropriate measures taken to avoid their reoccurrence. During the year 45 accidents occurred, none of which caused fatalities, but resulted in a loss of 675 man days - 0.1% of total man days."

Westland Aircraft Limited, Review 1978, p.14 [40]

"There were 189 reportable accidents during the year which resulted in 3,221 man-days lost."

Scottish and Newcastle Breweries Limited, p.15 [41]

"Accident statistics for our brewery operatives within the UK, in the form approved by the Brewers' Society, are:"

Calendar Year	Employees	Accidents	Lost days	Days lost per man
1975	4,953	424	7,480	1.51
1976	5,014	438	9,117	1.82
1977	5,073	404	8,536	1.68

"The accident rate per thousand employees compares with the brewing industry as follows:"

Calendar Year	Breweries with more than 1000 employees	All breweries	Our breweries
1975	101.08	99.60	85.60
1976	94.83	98.72	87.36
1977	92.91	99.73	79.64

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[39] Mobil Oil Company Limited, "Annual Report and Accounts 1977", (London: Mobil Oil Company, 1978), p.5

[40] Westland Aircraft Limited, "Westland Review 1978", A Supplement to Annual Report and Accounts 1978, (Yeovil, Somerset: Westland Aircraft Ltd., 1979), p.14

[41] Scottish and Newcastle Breweries Limited, "Annual Report and Accounts 1978", (Edinburgh: Scottish and Newcastle Breweries Limited, 1978), p.15

166. Establishment of a safety department or committee:

Reed International Limited, p.27 [42]

"The health and safety of employees continues to be a major management priority. In the UK, over 500 senior and middle managers attended courses during the year organised by the Corporate Safety Department as part of the Company's policy of ensuring that management is kept updated on legislation and the latest safety standards and practices."

The Burmah Oil Company Limited, p.22 [43]

"The work of the group environment unit in ensuring full compliance with the Health and Safety at Work Act 1974 was given further impetus during the year by the setting up of a group health and safety committee. This meets under the chairmanship of the group managing director, with the object of ensuring the necessary consultation and monitoring of safety practices and performance standards. A system of safety audits has been set up to help operational managements further to improve their health and safety records, as well as the working environment."

167. Disclosing a policy on health and safety of all employees at work:

The "Shell" Transport and Trading Company Limited, p.33 [44]

"Guidelines on health, safety and environmental conservation were further developed during the year for use by Shell companies in the continuing process of adapting their practices. The guidelines define general policy - 'to conduct activities in such a way that the health and safety of employees and of other persons are safeguarded, and proper regard is paid to the conservation of the environment' - and outline specific action points.

The regular annual safety reviews carried out by Shell companies showed that, after a slight worsening in 1976, the overall lost-time injury frequency rate returned in 1977 to the level of previous years. Efforts to reduce the rate continued, embracing safety audits, improvements in communication, the analysis of accidents in Shell companies and outside, and the study of better ways of identifying possible hazards.

Investigations show that most accidents are caused by human failure rather than by intrinsically unsafe situations. Particular attention is therefore given to improving motivation and awareness, while still seeking ways to minimize the potential consequences of human error."

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[42] Reed International Limited, "Annual Report and Accounts, 1978", (London: Reed International Limited, 1978), p.27

[43] The Burmah Oil Company Limited, "Annual Report and Accounts 1977" (Glasgow: The Burmah Oil Company, 1978), p.22

[44] The "Shell" Transport and Trading Company, Limited, "Annual Report and Accounts 1977" (London: The "Shell" Transport and Trading Company, 1978), p.33

168. General qualitative disclosure on health and safety at work:

Courtaulds Limited, p.15 [45]

"Health and safety continues to be given a high priority in the group. The Health and Safety at Work Act, in the second year since it became fully effective, gave additional impetus to awareness of what is required for safety and health and this impetus has been sustained. Efforts have continued to identify problem areas and to provide appropriate remedies and codes of practice. Training programmes have been extended in readiness for the appointment of Safety Representatives."

Turner and Newall Limited, p.3 [46]

"Concern with occupational health and safety is a major responsibility of the executives in charge of our operating companies. I would like to emphasise that we are involved in the use of many materials and processes and that our concern with occupational health and safety goes far beyond the statutory requirements. Our safety record is of a high order."

17. Other disclosures relating to the employment practices:

171. Fringe benefits provided for employees:

Marks and Spencer Ltd., p.26 [47]

"Our extensive programme of preventive medicine continues. The Company provides cervical cytology examinations for our female employees and for the wives of our male staff. The Breast Screening Scheme for female employees aged 35 and over, together with wives of our male staff, is well under way. The Company also provides chest X-rays for all staff on a three-yearly cycle.

Doctors and Dentists regularly attend every Store and our Head Office Medical Services have been considerably enlarged and improved. A Dental Unit was opened in Head Office in June, 1976. More than 1,000 members of Head Office staff have already become patients."

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[45] Courtaulds Limited, "Annual Report and Accounts 1976-77", (London: Courtaulds Limited, 1977), p.15

[46] Turner and Newall Limited, "Annual Report and Accounts 1977" (Manchester: Turner and Newall Limited, 1978), p.3

[47] Marks and Spencer Limited, "Annual Report and Accounts 1977", op. cit., p.26

The Boots Company Ltd., p.16 [48]

"In order to mark the year the company has inaugurated the Boots Centenary Travelling Scholarships, open to members of staff for travel and a short period of study in an overseas country in which there is a Boots presence. The first six Scholarships will be awarded this year. It was appropriate, too, during our Centenary Year that we should purchase a fine country house. Daglingworth Place, near Cirencester, where members of our staff under particular stress can spend a week of quiet relaxation."

Ladbroke Group Limited, Special Report [49]

"Life Assurance:
After completing an initial qualifying period, full-time staff are automatically covered, free of charge, for life assurance benefit for at least twice their annual salary. In the event of death in service, a tax free lump sum will be paid to the beneficiaries at the discretion of the trustees who will have considered the employee's nomination.

Private Medical Insurance:
The company operates a group scheme with the Western Provident Association which enables all employees to joint with a possible maximum reduction of 33.1/3% on subscriptions. Members and their immediate families are re-imbursed by the association for private medical treatment provided it has been recommended by the member's doctor. The amount of benefit that can be claimed depends on the scale chosen."

British Home Stores Limited, Report to Employees 1978 [50]

"Whilst direct pay is the largest and most important part of employees' remuneration, the company has improved three other important benefits during the year. Firstly, we have contracted out of the State Pension Scheme and in consquence, extended the benefits within the company's pension scheme to all employees. Secondly, we have increased the annual holiday entitlement so that all employees with one year's service are now entitled to four weeks holiday. Thirdly of course, we have continued to provide free meals to all staff and the cost of this benefit to the company and therefore its value to the individual, has increased enormously since it was first introduced over 10 years ago."

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[48] The Boots Company Limited, "Annual Report and Accounts 1978", op. cit., p.16

[49] Ladbroke Group Limited, "Special Report", A Supplement to Annual Report and Accounts, 1977, (London: Ladborke Groups Ltd., 1978), unnumbered page.

[50] British Home Stores Limited, "Report to Employees 1978", (London: British Home Stores Limited, 1978), last, unnumbered,page.

The Associated Biscuit Manufacturers Limited, Report to Employees [51]

"The company also provides a host of welfare facilities such as subsidised meals, medical attention and sports clubs."

172. Pensions and enhanced pension schemes:

UBM Group Limited, Report to Employees 1978 [52]

"The Group Pension Fund contracted out of the State Pension Scheme which meant that on 6th April 1978 employees had to opt for the UBM Pension Fund or the State Scheme. 99.6% of those employees who were already members of the UBM Pension Fund decided that the Fund benefits were preferable to the State Scheme and 615 people joined as new members making a total membership of about 4500."

The Welcome Foundation Limited, Special Report for Welcome Employees, p.5 [53]

"This year the company allocated a further £1¾ million, in addition to its normal contributions, to keep the Pension Fund in the United Kingdom properly funded to meet further commitments. We believe that we have been in the forefront in trying to protect our existing pensioners from inflation and the letters we receive from them are demonstration enough of their appreciation."

173. Disclosing information on training programmes for all employees:

Ever Ready Company (Holdings) Limited, p.26 [54]

"Increasing attention is being given to the development of our managerial resources throughout the group and particularly to provide career opportunities in all areas of our operations. Our training standards remain high with the clear objective of preparing all those people with proven capability and potential for wider responsibilities and promotion. There is an increasing exchange of personnel between functions and between companies as an integral part of our policy to develop management strength for the group as a whole".

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[51] The Associated Biscuit Manufacturers Limited, "Report to Employees on the Financial Results of 1977", (Reading: The Associated Biscuit Manufacturers Ltd., 1978), last, unnumbered, page.

[52] UBM Group Limited, "Report to Employees 1978", A Supplement to the Annual Report and Accounts 1978, (Newbury, Berkshire: UBM Group Limited, 1978), unnumbered page.

[53] The Welcome Foundation Limited, "Special Report for Welcome Employees 1977", (London: The Welcome Foundation Limited, 1977), p.5

[54] Ever Ready Company (Holdings) Limited, "Annual Report and Accounts 1978", op. cit., p.26

George Wimpey and Co. Limited, p.7 [55]

"We are also continuing with our substantial training and management development efforts and currently have over 2,700 employees undergoing formal training. Although time consuming and costly, we strongly believe that these programmes are of vital importance to ensure the fullest utilisation of manpower resources within the organisation. Our commitment overseas has provided excellent opportunities for career advancement as well as highlighting new training needs."

Pilkington Brothers Limited, p.14 [56]

"The group has always given a high priority to the training and development of employees at all levels and continues to do so.

In the U.K. the majority of activities are covered by the Ceramics, Glass and Mineral Products Industry Training Board. In recognition of its standards the company receives exemption from the training levy. Group training and development, located in St. Helens, spent £0.8 million in 1978 on its activities. Additional expenditure is incurred at all locations within the group.

The construction of new premises for the group training centre at a capital cost of £0.5 million is well advanced."

174. Diclosing the number, or costs, of working days lost during the year as a result of industrial disputes:

Chloride Group Ltd., p.3 [57]

"5.1 million man days were available throughout the Group Worldwide. Of these, 173,800 man days were lost in the UK, mainly as a result of the first major stoppage in the history of the Company. A further 34,900 man days were lost in non-UK operations, particularly in Australia. This means that of the total man days available, 4.1% were lost due to disputes."

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[55] George Wimpey and Co., Limited, "Annual Report and Accounts, 1977", (London: George Wimpey and Co., Limited, 1978), p.7

[56] Pilkington Brothers Limited, "Annual Report and Accounts 1978", (St. Helens, Merseyside: Pilkington Brothers Limited, 1978), p.14

[57] Chloride Group Ltd., "Annual Report and Accounts 1978", (London: Chloride Group Ltd., 1978), p.3

Chrysler United Kingdom Limited, Report to Employees, Second Quarter 1978 [58]

"There were twenty-nine stoppages of over four hours duration during the second quarter of 1978. This is more than twice the number of stoppages experienced in the previous quarter, and this has contributed to our lack of performance.

The total hours lost due to all stoppages was 104,654. This is a vast increase over the previous quarter when 8,417 hours were lost. The position deteriorated at the end of the quarter and the disputes have continued into the 3rd quarter."

The Thomson Organisation Limited, pp. 7,11 [59]

"In the case of Times Newspapers including The Times, the cost of industrial disputes, mainly internal, was of the order of £1.1m. This is an appalling waste of money, resources and human efforts in an industry which has well defined procedures for dealing with disputes and complaints. Over the last seven years the cost of industrial disputes, including the Times, has exceeded £4.2m."

"We had to pay back to advertisers £570,000 because of shortfalls in circulation due to unofficial industrial disputes. This loss of revenue is serious enough but the loss of confidence amongst advertisers, distributors and readers causes continuous damage to our future prospects."

"The Times lost over 3½ million copies as a result of unofficial industrial disputes. This resulted in a lost of profits of some £340, 000."

"As with the newspapers, the Supplements also were seriously affected by industrial disputes which caused them some £180,000 in loss of profits."

175. Disclosure of employee representation on the company's board of directors:

The Rank Organisation Limited, p.9 [60]

"In a number of the countries in which Rank Xerox has interests, legislation now reflects the change in attitudes in recent years towards management/employee relationships. This change is leading to increased employee involvement in the management decision-making process as in Germany where, from July 1978, employees will have equal representation with shareholders on the supervisory board of any company with more than 2,000 employees."

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[58] Chrysler United Kingdom Limited, "Report to Employees, Second Quarter 1978", A supplement to the Annual Report and Accounts 1977, (London: Chrysler UK Limited, 1978), unnumbered page.

[59] The Thomson Organisation Limited, "Annual Report and Accounts 1977" (London: The Thomson Organisation Limited, 1978), pp.7, 11

[60] The Rank Organisation Limited, "Annual Report and Accounts 1977", (London: The Rank Organisation Limited, 1978), p.9

176. Disclosure of employee participation in decision-making process:

Imperial Chemical Industries Limited, p.16 [61]

"In this year of debate on employee participation, ICI continued to make further practical progress. Following the development over a number of years of Business and Investment Committees at Division level, Central Business and Investment Committees now exist for both weekly and monthly staff. The chairman of these committees is a Deputy Chairman of the Board, who is accompanied by a number of Directors and senior executives. Each Division elects an employee representative who, in the case of weekly staff, is a shop steward. These new arrangements bring employee representatives into regular contact with the development of the Company's business and investment policies and give employees an opportunity to influence such policies."

177. Disclosure of employees' profit-sharing scheme, or savings-related share option scheme:

Rowntree Mackintosh, pp. 6,9 [62]

"Last year shareholders agreed to the establishment of a scheme under which employees - initially in the UK and France - could be offered options to purchase shares in the Company. The scheme was received with enthusiasm and, with applications from all grades of employees, the offer was oversubscribed. It is proposed to make a further offer this year and to extend the scheme to employees in Australia, Canada, Belgium, Germany, Holland and Italy.

The Company's UK profit sharing scheme, which has been in existence for over 50 years, distributed this year, for the first time, a sum exceeding £2 million. This was shared among some 19,800 employees."

"At an Extraordinary General Meeting held on 31st May 1977 shareholders approved the introduction of Employee Share Option Schemes and increased the authorised share capital of the Company to £31,620,000 by the creation of 3,240,000 ordinary shares of 50p each.

Options over 1,039,792 ordinary shares were granted under the Schemes in July 1977 to 2,076 employees of the Group in the United Kingdom and France. These options entitle holders to purchase the shares at 241.2p or 268p, depending on the form of application, at various dates between 1980 and 1984."

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[61] Imperial Chemical Industries Limited, "Annual Report and Accounts 1977", (London: Imperial Chemical Industries Limited, 1978), p.16

[62] Rowntree Mackintosh, "Annual Report and Accounts 1977", (York: Rowntree Mackintosh, 1978), pp.6, 9

178. General qualitative disclosure on employee-relations or industrial relations:

Thorn Electrical Industries Limited, p.7 [63]

"I have been impressed by the excellent relationships which exist amongst those who work for the Company, even though the economic conditions in the UK have been anything but helpful."

"This is a confident friendly company but without false optimism. We believe in a positive policy for further improving the relationship between employees at all levels and fulfilling their natural wish for increased participation, and as a result are making real progress with the work of the Employee Councils established on our sites."

Carrington Viyella Ltd., p.9 [64]

"Relations with employees and their trade union representatives have continued to be very good and efforts are being maintained to improve communication and consultation procedures."

2. Environmental Pollution Control:

21. Disclosure of all capital, operating, research and development, and monitoring expenditure for the abatement of air pollution, water pollution, land (or solid waste) pollution, and noise pollution:

The Rio-Zinc Corporation Limited, p.10 [65]

"The group's environmental expenditure in 1977 was some £25 million. This figure includes grants to universities and other learned institutions undertaking research on subjects of importance to Group companies. From 1970 to 1977 inclusive the Group spent some £125 million on environmental controls, an average approaching £16 million a year. In addition, associated companies spent in excess of £2 million in 1977."

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[63] Thorn Electrical Industries Limited, "Annual Report and Accounts 1977", (London: Thorn Electrical Industries Limited, 1977), p.7

[64] Carrington Viyella Limited, "Annual Report and Accounts 1977" (London: Carrington Vieyalla Limited, 1978), p.9

[65] The Rio-Tinto-Zinc Corporation Limited, "Annual Report and Accounts 1977", (London: The Rio Tinto-Zinc Corporation, 1978), p.10

23. General qualitative disclosure relating to environmental pollution control:

Steetley, p.6 [66]

"We are active in the fields of mineral extraction, burning operations and the handling and distribution of chemicals. We are very conscious of our responsibility to ensure the minimum effects on the environment in general to those residents in areas adjacent to our operations in particular and to keep up the generally good record in regard to the restoration of land following the extraction of minerals."

Fisons Limited, p. VIII [67]

"Fisons keeps under continual review the nature of its role and responsibility towards the community and the environment. A committee chaired by a Deputy Chairman of Fisons Limited, and consisting of representatives from all activities of the Group, monitors developments and progress of all major matters relating to the environment, as well as health and safety at work. The Company's efforts to improve the environment which include such means as effluent control, noise suppression, clean air treatment and factory landscaping continue to be maintained. Before any capital expenditure is undertaken full consideration is given to environment, health and safety aspects. Fisons not only takes positive action in respect of its own sense of responsibility but also offers an environmental consultancy facility to other companies and authorities on an international basis."

Esso Petroleum Company Limited, pp.19-20 [68]

"Though 1977 did not see the dramatic effect of any further major investments, the environmental performance achieved in the course of the Company's operations has shown a continued improvement on previous years. In all the Company's plants and installations efforts have been directed towards achieving the best performance from equipment already in place to control and reduce emissions of pollutants to air and water.

During the year new legislation came into force which required the release of more information on environmental performance. Special efforts have been made to discuss with the relevant public authorities the current levels of Company performance, assessments of the impact of our operations on the environment and future plans to reduce emissions and other discharges.

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[66] Steetley, "Annual Report and Accounts 1977", (Worksop, Nottinghamshire: Steetley, 1978), p.6

[67] Fisons Limited, "Annual Report and Accounts 1977", (London: Fisons Limited, 1978), p. VIII

[68] Esso Petroleum Company Limited, "Annual Report and Accounts 1977", (London: Esso Petroleum Company, 1978), pp.19-20

The knowledge and experience accumulated within the Company have made a significant contribution to studies carried out by Government in assessing the implication of proposals for environmental controls coming from international organisations. These discussions have covered not only the operation of industrial facilities but the use of petroleum industry products.

To provide a basis for the assessment of future needs in the environment, Fawley Refinery has completed studies of air quality which provide a much better understanding of the impact of the refinery on the air in its vicinity. This work is to be developed further in 1978.

At all major centers of operation quality of the water coming from the plant as effluent has been improved.

Automatic overfill warnings and alarm systems fitted to the Company's ships in a programme completed in 1977 provide still further protection against oil spillages into the sea in the Company's marine operations. The progressive adoption throughout the fleet of tank washing with crude oil to improve the cleaning of tank spaces on board will significantly improve the quality of the ballast water which has to be discharged from the vessels in operation. During the year reviews have been carried out of all environmental emergency procedures associated with Company operations and these have improved the ability of the Company organisation to respond quickly and effectively. Early in the year the usefulness of the careful planning and testing of procedures as part of the Company's programme was demonstrated when an accidental escape of oil took place at Fawley Refinery during a major maintenance operation. The clean-up operations and organisation of emergency procedures were carried out in a way which minimised the damage to the environment and to the good relationships built up with the community surrounding the refinery over many years.

The Abingdon Research Centre of Esso Petroleum Company plays an important role in environmental work. During 1977 its responsibilities were increased when it became the European centre for Esso work in the field of automative emissions. About £400,000 has been invested in new facilities to carry on this activity. The Research Centre has been carrying out long-term work on fuel gasification and desulphurisation using a chemically activated fluidised bed or CAFB. This work is supported by the US Government and, during 1977, developed from its original concentration on oil to include studies of coal. Before the end of the decade, it is expected that this work will lead to a successful commercial demonstration of an environmentally acceptable process for the burning of particularly 'dirty' - potentially polluting - fossil fuels."

3. Energy and Natural Resources Conservation:

31. Energy conservation:

311. Disclosing total annual expenditure on energy consumption; and

312. Disclosing energy savings resulting from utilising waste materialsfor energy production and from product recycling:

Tube Investments Limited, Report to Employees [69]

"TI Weldless, which uses about £2 million worth of fuel a year in its two seamless tube mills, has saves £200,000 of this by a range of measures, from installing a waste heat boiler to use heat which would escape up the chimney for space and process heating, to a straightforward economy campaign - checking that doors and windows are kept closed and lighting and heating used only when necessary. Many other schemes of this kind are saving costs throughout TI, helping the balance of payments and saving previous fuel reserves for future generations."

Albright and Wilson Limited, p.8 [70]

"Energy savings campaign:
This campaign to effect savings in our consumption of fuels of all kinds was begun in July 1975 and continued to gain momentum in the year under review. Savings of over £2million have been achieved since the campaign was initiated, and the current rate of saving is running at approximately £2.5 million per annum. Additional potential savings of more than £1.5 million per annum have been identified but will require significant capital expenditure to achieve."

Esso Petroleum Company Limited, p.19 [71]

"The established employee training and awareness schemes on energy conservation continued throughout 1977 in Esso Petroleum Company. No new major investments were carried out, and the stress continued to be on carrying out operational procedures with the highest possible degree of commitment and efficiency. Nevertheless, a total saving of £7.25 million was achieved within the Company as a whole by fuel conservation and the more efficient use of energy in comparison with consumption in 1976. The bulk of this saving was achieved in the Esso

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[69] Tube Investments Limited, "TI 1977 Report to Employees", op. cit., unnumbered page.

[70] Albright and Wilson Limited, "Annual Report and Accounts 1977", (London: Albright and Wilson Ltd. 1978(m p.8

[71] Esso Petroleum Company Limited, "Annual Report and Accounts 1977", op. cit., p.19

marine fleet which achieved a substantial improvement over the record of 1976 by the continuation of slow speed steaming and other measures to conserve fuel. The refineries also made a substantial contribution of over £1.25 million to energy savings, by continuing improvement in day-to-day control monitoring savings in steam consumption and by the involvement of staff at all levels in improving standards of energy consumption and practice."

314. Adopting a policy, or a programme, on energy conservation:

Pilkington Brothers Limited, p.7 [72]

"All our people in one way or another have contributed to making our energy conservation programme a success.

Last year we achieved an 8% reduction in our U.K. consumption of energy compared with three years ago. Three large waste heat recovery schemes and improvements to furnace designs were implemented at a cost of £3 million.

We have had a publicity campaign to help employees understand the need for personal commitment to energy savings and have given responsibility to technical teams and to managers in our factories to ensure efforts are sustained."

315. Using energy in production process efficiently:

Unilever Limited, p.27 [73]

"In constant U.S. dollar terms, world energy prices remained at the same level as in 1976. By close management control and the introduction of newer and more efficient processes and equipment, we seek continuously to use energy more effectively."

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[72] Pilkington Brothers Limited, "Annual Report and Accounts, 1978" op. cit., p.7

[73] Unilever Limited, "Annual Report and Accounts 1977", (London: Unilever Limited, 1978), p.27

316. General qualitative disclosure on the company's concern about energy shortage problems:

<u>The "Shell" Transport and Trading Company Limited, p.5</u> [74]

"During 1977 energy was a major topic of public debate. Government leaders and industry spokesmen, urging reduced dependence on imported oil, faced the problem of convincing consumers of the need to conserve energy and to prepare for impending scarcity of supply at a time of current surplus. Rapidly increasing supplies of oil from new but limited non-OPEC sources - mainly the North Sea, Alaska and Mexico - may further encourage a false sense of security. It is likely to be short-lived as even modestly rising demand begins, probably in the 1980s, to absorb the new oil and to stretch OPEC capacity, or willingness, to produce more."

"This means, however, that alternative sources of energy must be developed now if they are to be ready when they are required and so release oil for its prime uses."

32. Natural resources conservation:

321. Using material resources in production process efficiently:

<u>Dupont Limited, p.7</u> [75]

"The conservation of natural resources is now widely acknowledged to be a necessity of our time. Within the Group we accept the responsibility to make our contribution."

322. Recycling of water materials:

<u>Croda International Ltd., p.6</u> [76]

"The product recovery plants undertake the re-cycling of valuable solvents and the treatment of industrial effluent."

<u>The Bowater Corporation Limited, p.9</u> [77]

"We, therefore, continue to place emphasis on reducing our reliance on imported raw material. Accordingly, our paper company is converting, at a cost of £9 million, a former newsprint machine at Kemsley mill in Kent to make a new packaging grade from re-cycling waste paper, and Bowater-Scott is investing some £3.5 million on fibre re-cycling plant at its Barrow and Northfleet mills."

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74 The "Shell" Transport and Trading Company Limited, "Annual Report and Accounts 1977", <u>op. cit.</u>, p.5

75 Dupont Limited, "<u>Annual Report and Accounts 1977</u>", (Birmingham: Dupont Limited, 1977), p.7

76 Croda International Limited, "<u>Annual Report and Accounts 1977</u>", (North Humberside: Croda International Ltd., 1978), p.6

77 The Bowater Corporation Limited, "<u>Annual Report and Accounts 1977</u>", (London: The Bowater Corporation Ltd., 1978), p.9

4. Community Involvement:

41. Educational, charitable and political contributions:

Northern Engineering Industries Limited, p.9 [78]

"Donations:	Educational		£8,200
	Charitable		£9,500
	Political:		
		The Northern Industrialists Protection Association	£5,000
		The Economic League	£ 400

42. Donations of cash, products, or employee services to support established community activities, events, or organisations:

Marks and Spencer Ltd., p.12 [79]

"Social Responsibility:

We believe that a business must act as a good citizen and that, as retailers, we have a special responsibility to the local communities in which we operate stores. The personal and voluntary commitment of many of our store staff to local charitable causes is as important as the funds made available for these purposes.

This year's annual donations to national and local charities totalled £549,000. They are in the areas of social need, medical research, education and the arts. We are donating £250,000 over the next ten years to the Jubilee Appeal, launched by his Royal Highness, the Prince of Wales, the bulk of which is to give young people throughout the United Kingdom greater opportunity to serve the community in which they live."

Powell Duffryn, p.6 [80]

"In addition, many employees, with the support of their companies, play their part in community activities."

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[78] Northern Engineering Industries Limited, "Annual Report and Accounts 1977" (Newcastle upon Tyne: Northern Engineering Industries Ltd., 1978), p.9

[79] Marks and Spencer Ltd., "Annual Report and Accounts 1977", *op. cit.*, p.12

[80] Powell Duffryn, "Annual Report and Accounts 1978", (London: Powell Duffryn, 1978), p.6

43. Providing summer or part-time employment for students of the local area:

The Delta Metal Company Limited, p.14 [81]

"Delta runs local training schools for first-year craft apprentices and others, and has training schemes for school leavers, undergraduates, and graduates. Internally managed seminars and courses are held throughout the Group regularly.

Delta is developing closer links with schools and universities as a means of attracting young people to make their careers in industry. The Company has a close link with the Training Services Agency and gives young unemployed people experience of industry for short periods. All plants have close relationships with the appropriate Industry Training Board and have obtained exemption from the Training Boards' Levy Schemes."

44. Providing training programmes for non-employees:

Smiths Industries Limited, Special Report, p.9 [82]

"We have participated in the Government's Work Experience Programme at a number of locations. 29 unemployed young persons have received a six month introduction to working life under the scheme and some of these have subsequently remained with the Company in full-time employment."

46. General qualitative disclosure relating to the Company's involvement in local community affairs:

Chloride Group Ltd., p.6 [83]

"In our companies worldwide we have continued our long-standing policy of being good employers and responsible members of the local community."

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[81] The Delta Metal Company Limited, "Annual Report and Accounts 1977", (London: The Delta Metal Company Limited, 1978), p.14

[82] Smiths Industries Limited, "Special Report", op. cit., p.9

[83] Chloride Group Ltd. "Annual Report and Accounts 1978", op. cit., p.6

5. Fair Trading Practices:

51. Product safety:

511. Disclosing that products meet acceptable safety standards:

F.M.C. Limited, p.6 [84]

"Hygiene is an indispensable condition for the operation of all our food factories in the processing and manufacture of the high-quality products for which we are renowned, and our medical team ensures that the best standards are maintained."

513. Establishment of a product safety unit:

Metal Box Limited, p.13 [85]

"R. & D. effort on environmental problems grows and the Biological Safety Unit, backed by analytical chemical and physical techniques, has advised extensively on the methods required in factories to ensure that Metal Box's plant operations are safe for workers and that its products present no hazards to customers."

523. Disclosure of complete and clear information on product quality, methods of use, limitations of use, hazards of misuse, and quantity of contents

Hoover Limited, p.7 [86]

"We have placed before the consumer all the advantages and benefits of the product features which the Hoover brand incorporates, and this particular activity has been supported by substantial activities in association with Hoover Dealers throughout Great Britain."

524. Disclosure on quality improvement of products and services:

British Leyland Limited, p.4 [87]

"There was also a considerable improvement in the number and quality of cars produced in the last quarter of 1977, and this improvement has continued into 1978."

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[84] F.M.C. Limited, "Annual Report and Accounts 1976-77", (London, F.M.C. Limited, 1977), p.6

[85] Metal Box Limited, "Annual Report and Accounts 1978", (Reading: Metal Box Limited, 1978), p.13

[86] Hoover Limited, "Annual Report and Accounts 1977", op. cit., p.7

[87] British Leyland Limited, "Annual Report and Accounts 1977", (London: British Leyland Ltd., 1978), p.4

British Home Stores Limited, p.4 [88]

"Over the years, our food marketing policy has been to offer a limited range of high quality products with personal customer service."

525. Truth in labelling and advertising:

Hanson Trust, p.5 [89]

"A series of advertisements has been placed in the appropriate media over the last six months explaining the basic truths on which we seek to maximise the value of our investments."

526. Disclosure of information on other sort of communication with customers:

BOC International Limited, p.7 [90]

" Where we recognise and treat communication as a prime industrial problem and where the dialogue is maintained over a long period of time, we invariably make some progress. Pre-eminently, this occurs with our customers. What they want to know from us is usually clear and specific. Their requirements are well researched and carefully considered and we deploy considerable resources to meet them. Although still far from perfect, in no other area of communication is the need as well understood or our response as effective."

6. Other Social Responsibility Disclosure:

61. General disclosure of corporate social objectives or policies:

Trust Houses Forte Limited: [91]

"Our Company Philosophy:

1. To increase profitability and earnings per share each year in order to encourage investment and to improve and expand the business.

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[88] British Home Stores Limited, "Annual Report and Accounts 1977-78", (London: British Home Stores Ltd. 1978), p.4

[89] Hanson Trust, "Annual Report and Accounts 1977", (London: Hanson Trust, 1977), p.5

[90] BOC International Limited, "Annual Report and Accounts 1977", (London: BOC International Limited, 1978), p.7

[91] Trust Houses Forte Limited, "Annual Report and Accounts 1977" (Bristol: Trust Houses Forte Limited, 1978), last, unnumbered, page.

2. To give complete customer satisfaction by efficient and courteous services, with value for money.

3. To support managers and their staff in using personal initiative to improve the profit and quality of their operations whilst observing the Company's policies.

4. To provide good working conditions and to maintain effective communications at all levels to develop better understanding and assist decision making.

5. To ensure no discrimination against sex, race, colour or creed and to train, develop and encourage promotion within the Company based on merit and ability.

6. To act with integrity at all times and to maintain a proper sense of responsibility towards the public.

7. To recognise the importance of each and every employee who contributes towards these aims."

62. Reference in the annual report to additional publications, relating to the company's socially responsible activities, sent to shareholders together with the annual report, or made available to shareholders, employees or the general public on request:

The Plessey Company Limited, p.34 [92]

"The Company's main operating subsidiary in South Africa is Plessey South Africa Limited, which employs some 2,500 people of whom 192 are African male employees mainly in the Johannesburg area. These employees are all paid above the supplemented living level rates as published by the Bureau of Market Research at the University of South Africa, dated February 1978, for the average of all families in that area. They enjoy national statutory holidays plus 15 working days holiday on full pay, are all members of the company pension scheme, and enjoy non-contributory life assurance. Medical aid facilities are available on a company-subsidised basis. A more detailed statement is available to shareholders on request to the company secretary."

Standard Telephones and Cables Limited, "STC Report to Employees 1977" p.36 [93]

"New booklets containing full details on pensions have been prepared and these are obtainable from local Personnal Departments."

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[92] The Plessey Company Limited, "Annual Report and Accounts 1977-78", (Ilford, Essex: The Plessey Company Litd., 1978), p.34

[93] Standard Telephones and Cables Limited, "STC Report to Employees 1977", op. cit., p.36

63. Establishment of social responsibility committee:

The Boots Company Ltd. p.18 [94]

"From the time of Jesse Boot himself the Company has recognised its social responsibilities and we believe this is reflected in our attitude to the public we serve, to our employees and shareholders, to our suppliers and to the local communities in the places where we operate. A Board Social Responsibilities Committee, under the chairmanship of a non-executive director, Mr John Arkell, sits in an advisory and consultative capacity and has recently drafted a full statement of the Company's philosophy. Management and staff (through the staff councils) have endorsed the statement, which has now been published under the title 'Social Responsibilities at Boots'. Any shareholder who wishes to have a copy may obtain one by writing to the Company Secretary."

65. Disclosure of information on investment and operations in South Africa:

Associated British Foods Group, p.32 [95]

"Principal associated companies and other trade investments		Issued share capital	
		Total	Capital percentage of voting rights
In South Africa			
Agricommerce of South Africa (Pty.) Limited	(A)	12,346	50
Fermentation Industries (Pty.) Limited	(A)	2,469	50
Lestat Holdings (Pty.) Limited	(A)	30,864	50
H. Lewis and Company Limited		636,416	22
National Pountry Breeders (Pty.) Limited	(A)	123	50
Superkos (Pty.) Limited	(A)	44,444	50

"Associated companies are marked (A)."

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[94] The Boots Company Limited, "Annual Report and Accounts 1978", op. cit., p.18

[95] Associated British Foods Group, "Annual Report and Accounts 1976", (London: Associated British Goods Group, 1976), p.32

66. Disclosing the company's awareness of its social responsibilities generally, or of one of the social problems, such as alcoholism, specifically:

Dunlop Holdings Limited, "Chairman's Speech 1978", pp.6-7 [96]

"We shall therefore hold to the main thrust of the strategy, varying its implementation as circumstances require from time to time, in the confident knowledge that by so doing we shall continue to build a strong and socially responsible group. In this way we shall be responsive in future and true to the past of both Dunlop and Pirelli."

"We are determined to grow as good corporate citizens wherever we operate, as witness the new plant recently set up in Raleigh, North Carolina, the new tennis ball factory which will be opened next month in the Philippines, and the continuing promise of our pioneering work to control agricultural pollution in Malaysia."

Whitbread and Company Limited, pp.8-9 [97]

"We all remain concerned with the problems that abuse of alcohol can produce in society. The extent of such problems can be exaggerated but they are none the less real, and the Brewing Industry actively supports many of those organisations concerned with them - the main areas being under-age drinking, drinking and driving, and violence.

The increase of violence in our society is something that worries everybody, and, as many of you will have seen, the Company ran a questionnaire advertisement as part of our corporate advertising campaign during last year, on pub violence. The response was significant, and it was apparent that both the public and members of the Trade supported the need for increasing efforts to try to understand and combat the growth of violence.

We have now set up a Witbread Research Foundation at Oxford University's Department of Experimental Psychology to look more deeply into the subject. The Research Team will report to a Board composed of members of the Company and eminent public figures of experience in this area. I am pleased to report that Lord Carr and Sir Arthur Peterson, a former Permanent Secretary at the Home Office, have agreed to join us in this endeavour as Trustees."

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[96] Dunlop Holdings Limited, "Chairman's Speech 1978", A Supplement to the Annual Report and Accounts 1977, (London: Dunlop Holdings Limited, 1978), pp.6-7

[97] Whitbread and Company Limited, "Annual Report and Accounts 1978", (London: Whitebread and Company Limited, 1978), pp.8-9

"Sponsorship

Your Company has always been in the forefront of innovating sponsorship of sporting events, and we were very pleased this year to organise once again, in partnership with the Royal Naval Sailing Association, the Whitbread Round the World Race. In addition to such old favourites as the Whitbread Gold Cup at Sandown Park and the Badminton Horse Trials, we now include awards for literature and the arts, to say nothing of golf, cricket, tennis, speed-boating, darts and many others."

Summary and Conclusions

This chapter has surveyed the current practice of corporate social reporting in the United Kingdom. The survey was based on an analysis of the most recent annual reports and accounts of 207 companies of the top 265 of the largest United Kingdom industrial companies, as ranked by turnover in the 1977/78 Times 1000, available for financial years ended on or before 30th September 1978. All relevant documents sent to shareholders together with the annual reports, or made available to shareholders, employees and the general public, have also been analysed and used in the survey. The survey sought to find out the social performance areas in which British companies have actually been involved and have disclosed information about that involvement in their annual reports and accounts; the methods used for measuring and reporting social performance; the locations of social responsibility disclosure in the annual reports; and the approximate number of pages devoted to corporate social responsibility disclosure.

The major findings of the survey to determine the nature and extent of corporate efforts to account for, and report on, social responsibility performance were summarised in Section 2, and examined in depth in Section 3 of this Chapter. Moreover, to illustrate the different methods used by British companies for measuring and reporting social performance, examples of corporate social responsibility disclosure have been given in Section 4 of this Chapter.

These examples were extracted from annual reports and accounts of sixty companies. No comprehensive example, extracted from one company's annual report, was given in this chapter since there was no company making disclosure in the six main areas of corporate social performance.

CHAPTER VIII

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS FOR FURTHER RESEARCH

Summary and Conclusions of the Study

The basic objective of this study is to develop an accounting and reporting system for the costs of corporate social responsibility performance. To achieve this objective, it was necessary to discuss the whole issue of corporate social responsibility, review the current development of accounting and reporting for corporate social responsibility performance, and to determine the cost concept of accounting for corporate social responsibility performance, before focussing the attention on the development of a cost information and reporting system for corporate social performance.

Thus, the study began with a discussion of the nature of corporate socially responsible activities to be covered in corporate social reporting and the following definition of such activities was offered.

> Corporate socially responsible activities are those activities undertaken by a company, without expecting direct economic benefit, in compliance with the law and governmental regulations, over and above the requirements of the law, or undertaken voluntarily in response either to public pressure or to the plain sensitivity of management to social issues, for the purpose of improving the welfare of its employees, or public safety of the products, or conditions of the surrounding environment, or enhancing the social well-being of society at large.

The identification and classification of corporate socially responsible activities were discussed and it was concluded that there is no formula for all industries or individual companies for selecting the socially relevant activities to be covered in corporate social responsibility accounting. The choice ought to be made by each particular company according to its circumstances and the preference of its management. However, limiting the scope of corporate socially relevant activities to be measured and reported on seems to be necessary at this early stage of development of accounting for corporate social responsibility performance. Hence, several ways of limiting the coverage of corporate social responsibility performance accounting were discussed. Moreover, the determining factors which limit the scope of a company's social responsibility performance were presented in this study and some guide-lines to help the company's management in selecting socially responsible activities which the company may undertake, and in setting up their priorities, were suggested.

The rationales for undertaking corporate social activities were also discussed. These rationales include the avoidance of social pressure; the changing social contract with business; balancing corporate social power and responsibility; the ethics or moral obligations of business companies; and enlightened self-interest or increased long-term profitability of the company. It was concluded that these rationales blend into each other and they all should go together.

Furthermore, the legal requirements governing the business's behaviour in the main areas of corporate social responsibility were examined. It was concluded that legislation and enforcement have considerably influenced the performance of business companies in such areas as employment practices, environmental pollution control and consumer affairs. But, it was also concluded the existing company law is inadequate to cope with the growing public concern about corporate social responsibility and that a new consolidating

Companies Act including provisions on social issues is very much required. However, the legislation and governmental regulations discussed in this study are not the only examples of corporate socially responsible activities. They represent the legal minimum requirements which a business company must strive to meet in some of the major areas of corporate social responsibility performance.

Then, the current literature of accounting for corporate social responsibility performance was reviewed. The need for corporate social responsibility accounting was discussed. It was concluded that measuring and reporting information on corporate social responsibility performance are very much required. But it was also concluded that accounting for corporate social performance is still in an early stage of development. It does not yet have a universally accepted definition. There is not even agreement on the title to be used to describe the social information. The different names which have been used in the literature to describe the accounting and reporting for corporate social performance were examined in this study. These names include "social accounting", "social audit", "socio-economic accounting", "social responsibility accounting" and "accounting for social performance". Some definitions of these names were discussed and it was concluded that the use of the term "social accounting", "socio-economic accounting", or "social audit" is not appropriate. The problem with the names "social accounting" and "socio-economic accounting" is that they have been widely used to refer to "national income accounting" or "societal accounting". Also the common usage of the term "audit" means the independent outside attestation of the information generated internally by a company; but such an independent attestation has no meaning and realisation in terms of the progress of the "social audit". Thus, it was concluded that the terms "accounting for social performance" and "social responsibility accounting" are to be used interchangeably in this study to mean the measurement of and reporting on the social responsibility performance of a business company. It was further concluded that accountants should concentrate on external social reporting, rather than internal social reporting, and on measuring and reporting corporate social efforts, rather than corporate social impacts. Moreover, after making a comparison between social responsibility accounting and human resource (asset) accounting, it was concluded that the scope of corporate social responsibility accounting does not include the area of human resource accounting.

Furthermore, just as no one definition of accounting for corporate social responsibility performance is universally accepted, there has not been agreement as to the appropriate approach for measuring and reporting corporate social performance. The different approaches which have appeared in the literature for measuring and reporting corporate social performance were reviewed in this study. These approaches were categorised into four groups: (1) the inventory approach, (2) cost or outlay approach, (3) programme management approach, and (4) cost-benefit approach. These approaches ranged from simple, totally subjective, descriptive approaches to complex, totally financial approaches.

After discussing these approaches, it was concluded that the inventory approach is the least informative and it can not be effectively used as the basis of comparisons among companies. It was also concluded that the formulation of specific objectives for social programmes, in the programme management approach, and the measurement of the benefits, in the cost-benefit approach, are both difficult to achieve at this early stage of development of corporate social responsibility performance accounting. Consequently, it was concluded that the cost approach is the proper method to be used in this study. But the concept of social costs as used by economists is different from that which should be used by accountants in accounting for corporate social responsibility performance.

Therefore, the concept of social costs to be applied in accounting for corporate social responsibility performance was analysed in this study from the points of view of both economics and accountancy. The term "social costs" is used in economics as a synonym for "negative externalities", external diseconomies", "disamenities", "bad side effects" or "unpaid costs". Social costs are defined as those costs which are generated by a company's economic activities and borne by a third party, or by society as a whole, not by the company responsible for generating them. The problem with social costs is that they create a misallocation of valuable productive resources among industries, and thus the maximum social welfare cannot be achieved. Theoretically, to eliminate the occurrence of social costs, or at least to minimise their harmful effects, these costs should be accounted for or internalised into private costs of production. This principle of internalisation can be achieved, in theory, through the market mechanism or through a legal system of taxation, licensing, prohibition, or tax incentives and subsidies. The problems with all these economic approaches for the internalisation of social costs are practical in nature. In practice, social costs are extremely difficult, if not impossible, to identify and quantify with precision not only because they involve many subjective elements, but also because the relevant economic data are not available.

It was concluded therefore that accountants should not attempt to measure and report the costs to society resulting from a company's economic activities. Alternatively, accountants can measure and report the efforts made by a company to either decrease social costs or increase social benefits. The practical approach for the measurement of social costs, offered in this study, was based on the measurement of direct costs incurred by a company to either prevent or restore the damage inflicted on others by the company's business activities. The standards of relevance, quantifiability, verifiability and freedom from bias were used to justify this practical approach and to judge its appropriateness for corporate social responsibility performance accounting. It was concluded that the practical approach can meet these standards to a satisfactory degree. Moreover, a legal system of prohibition, taxation, tax incentives and subsidies was suggested in this study which would, if adopted by the government, create the economic incentive needed for business companies to become actively involved in corporate socially responsible activities.

After identifying the socially responsible activities to be covered in corporate social reporting, indicating the proper approach for measuring and reporting corporate social responsibility performance and determining the cost concept of accounting for corporate social responsibility performance, the focus of this study turned to the development of a cost information and reporting system for corporate social responsibility performance. To develop such a system, the costs of corporate social activities were first classified and identified. Then, the accounting treatment of such costs was investigated. Finally, a method for reporting these costs in the corporate annual report was suggested.

The costs of corporate social activities were classified from three points of view. Firstly, as to the main areas of corporate social responsibility activity, these costs may be classified to the costs of environmental pollution control activity and the costs of other social activities of a business company. Secondly, as to the purpose or goal for which these costs are incurred, the costs of corporate social activities may be classified as either preventive or restorative. Thirdly, as to the relationship between the incurred costs and the performance of corporate social activities, these costs may be classified as direct or indirect. However, as the indirect costs are usually very difficult to determine with precision, it was concluded that, at the present time, accountants should concentrate on measuring and reporting all the direct costs of corporate social activities and, where practicable, some of the indirect costs.

The costs identified with environmental pollution control activity were: (1) capital costs, (2) operating costs, (3) research and development costs, and (4) restoration costs. Moreover, the costs identified with other social activities of a business company were: (1) direct cash outlays, (2) administrative costs, (3) share of departmental overheads, (4) in some instances, capital costs incurred in certain social facilities, and (5) research and development costs. The significant elements of these costs identified with corporate social activities were discussed in detail in this study and their accounting treatment was presented in accordance with generally accepted accounting principles. It was concluded that the accounting treatment of such costs should not be different from the accounting for costs of the regular economic activities of a business firm.

In connection with the reporting of the costs of corporate social activities, it was proposed that these costs should be disclosed as separate items in the traditional financial statements. Illustrations of the income statement, balance sheet and statement of source and application of funds of a business firm, showing separately the costs of corporate social activities, were presented. Supplementary notes or schedules to the financial statements displaying more information on such separate disclosures were also suggested. Furthermore, a supplementary report to be included in the annual corporate report, as an adjunct to the financial statement, was proposed. This report, to be called the "social responsibility report" or "social performance report", is to include statistical data, indicators of social performance and all other information concerning the socially responsible activities of a business company.

Finally, to give substance to all the discussions and suggestions included in this study, a survey of the current state of corporate social reporting practice in the United Kingdom was conducted. This survey was based on an analysis of the most recent annual reports and accounts of 207 companies of the top 265 of the largest United Kingdom industrial companies, as ranked by turnover in the 1977/78 Times 1000, available for financial years ended on or before 30th September, 1978. All relevant documents sent to shareholders together with the annual reports, or made available to shareholders, employees and the general public, were also analysed and used in the survey. The survey enquired into the areas of social responsibility in which the leading British companies are actually involved and are disclosing information on that involvement in their annual reports and accounts; the measurement methods of social responsibility performance; the locations of social disclosure in the annual report; and the approximate number of pages devoted to corporate social performance disclosure.

The major findings of the survey to determine the nature and extent of corporate efforts to account for, and report on, social responsibility performance were:

1. The area of employment practices is perceived by all companies as the most important, closely followed by the area of community involvement. However, far less importance is placed on the areas of environmental pollution control and conservation of energy and natural resources. The area of fair trading practices represents the area of least importance in the current reporting practice by British companies.

2. The law and governmental regulations play an important role for the disclosure of information on corporate social responsibility performance. Almost all companies disclose in their annual reports the social information which is legally required, such as the average number of U.K. employees and their aggregate remuneration; and the charitable, educational and political contributions.

3. Apart from that legally required information, most companies do not disclose information about the costs of their socially responsible activities. No accounts give cost information which

would not normally be given or could be calculated from the published accounts.

Moreover, in the area of employment practices, there is no evidence that employees were being provided with information in excess of legal requirements. Such additional information as did appear was limited mainly to labour statistics or qualitative statements about employee relations and industrial relations. In the other areas of corporate social performance, the disclosure of social information was mostly qualitative.

4. Closely associated with the preceding point is that no social disclosure of any kind is made by any company in the body of financial statements. The most frequent locations for social information are in the directors' report, chairman's statement, or in other parts of the annual report.

5. In general, the number of pages devoted to social responsibility disclosure, in the annual reports and accounts, is extremely limited. The vast majority of companies devote less than half of a page to the disclosure of social information in their annual reports.

6. Almost all companies do not include representatives of employees; consumer protection groups; environmentalist and conservationist groups; or other social interest groups on their boards of directors. Furthermore, they do not, with only one exception, have a social responsibility department or committee to conduct and report on the company's social responsibility performance.

7. However, the survey reveals that the approaches for measuring and reporting corporate social performance, which have been discussed in this study, are used to some degree. Of those approaches used,

the inventory listing of the company's social activities is most common, followed in order of use by measurements of costs of such activities together with quantitative, but non-monetary, information relevant to corporate social responsibility performance. The least-used approach is programme management approach, and measurement of both the costs and benefits of socially responsible activities is not used by any company in the real sense of cost-benefit approach as discussed in this study.

To illustrate the different methods used by British companies for measuring and reporting their social performance, examples of social disclosures, extracted from annual reports and accounts of sixty companies, were presented in this study.

In the light of these findings, the overall progress in reporting social information in the annual reports and accounts is extremely limited. However, it is hoped that further research efforts, by other researchers, will make the cost information for corporate social responsibility performance as common and accurate as current accounting information.

Recommendations for Further Research

The preceding findings and conclusions point to the need for further research efforts in the area of accounting and reporting for the costs of corporate social responsibility performance. While this study provides conceptual arguments supporting the validity of the cost information and reporting system for corporate social performance suggested in this study, some empirical evidence should be obtained. Therefore, case studies should be conducted by other researchers empirically to test the feasibility of the reporting method proposed in this study. Such an effort would help specify corporate social reporting in addition to providing the precise method by which social information can be integrated into the present accounting and reporting system.

Moreover, as the emphasis of this study was on the reporting of social information to external users of the annual corporate reports, additional research is needed to develop a social reporting system for internal managerial decision-making purposes. For internal decision-making purposes, an analysis of the costs associated with corporate socially responsible activities together with some measures of cost-effectiveness, or some surrogates of social benefits, would be of great value to the management of a business company.

Finally, additional surveys of the current state of corporate social reporting practices in the United Kingdom should be conducted. Such surveys should be designed to cover companies of various sizes, annual reports and accounts of those companies for several years and all other channels through which a company may disclose information on its social responsibility performance.

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APPENDICES

APPENDIX 1

A Letter from Mr. D. Holder, the Employment Service Agency, Department of Employment, to the Researcher, dated 9th February, 1978.

THE EMPLOYMENT SERVICE AGENCY

Head Office ESG.1

213 Oxford Street
London
W1R 2ES

Telephone:
01 439-8601

Mr Samy W Metwally BSc MSc
Department of Accountancy & Business Law
University of Stirling
Stirling
Scotland FK9 4LA

9 February 1978

Dear Mr Metwally

As you know your request for information on the employment of disabled people has been passed to the Employment Service Agency for reply.

1. The total number of registered disabled people on the Disabled Persons Register in April 1977 was 532,402.

2. The total number of firms subject to a quota obligation as at 1 June 1977 was 50,459.

3. The number and percentage of these firms below quota was 31,763 (63%).

4. The number and percentage of firms below quota which had applied for permits in the previous 12 months was 21,703 (43%).

5. Number and percentage of firms below quota which had not applied for a permit in the previous 12 months was 10,060 (20%). It is not an offence to be below quota. Whether the employers were in breach of the law would depend on whether they had engaged able-bodied employees during the previous 12 months. Offences can only be proved by inspection of individual employers' quota records followed by proceedings and convictions by the Courts.

6. Since its inception, there have been 10 prosecutions under the Disabled Persons (Employment) Act 1944, 6 of which were during the last 20 years.

To give you background information, I enclose a copy of the Consultative Document on the Quota Scheme which was issued in 1973. In 1975 the Government announced that the scheme would be retained but that the responsibility for its administration would pass to the Manpower Services Commission.

Also enclosed is a copy of 'Positive Policies' copies of which were issued to over 50,000 employers last year. This booklet, which was published jointly by Manpower Services Commission and the National Advisory Council on the Employment of Disabled People, is aimed at encouraging employers to develop positive policies not only for the recruitment of disabled people but also for the training, career development and promotion within firms.

I hope you find these booklets useful.

Yours sincerely

D Holder

D HOLDER

APPENDIX 2

A Standard Letter which was sent to each of the top 265 of the 1,000 largest U.K. industrial companies as ranked by turnover in the Times 1000 of 1977/78.

Department of Accountancy and Business Law
Head of Department: *Professor J M S Risk*

UNIVERSITY OF STIRLING STIRLING FK9 4LA SCOTLAND | TELEPHONE: STIRLING (0786) 3171

Dear Sir,

To assist the research work of a student studying for a Ph.D. I should be grateful if you would be good enough to send us a copy of your company's most recent annual report and accounts. If you can spare 2 copies, I would be grateful.

If there should be any other information available such as a special report for employees or otherwise, such documents would also be of value to us and to the particular student.

If this department is not already on your company's mailing list we should be most grateful if we could receive in future 1 copy of your annual report and accounts.

Yours faithfully,

J.M.S. Risk JMSR/EMS

APPENDIX 3

The Detailed Analysis of Social Responsibility Disclosures for 207 companies extracted from the Top 265 of the Largest U.K. Industrial Companies as indicated by The 1977/78 Times 1000.

The numerical designations correspond to the areas of corporate social responsibility disclosure listed briefly in Table 7.3 (page 335) and detailed in Table 7.7 (pages 350-356). These areas were as follows:

1. Employment practices
2. Environmental pollution control
3. Energy and natural resources conservation
4. Community involvement
5. Fair trading practices
6. Other social responsibility disclosures.

Moreover, the alphabetical designations correspond to the locations of social responsibility disclosure in the annual corporate report indicated in Table 7.5 (page 342). These locations were as follows:

A. Chairman's,president's or chief executive's statement

B. Directors' (or Management) report

C. Statement of accounting policies

D. Financial statements

E. Other part of the annual report in some way devoted to an aspect of social responsibility

F. A separate report sent to shareholders together with the annual report and accounts, or made available to shareholders, employees, or the general public on request.

Rank in the Times 1000	Company	Type of Industry	Areas of Social Responsibility Disclosure	Measurement Methods of Social Responsibility			Number of pages devoted to Social Responsibility Disclosure	Location in the Annual Report of Social Responsibility Disclosure
				Qualitative	Quantitative			
					Monetary	Non-Monetary		
1	The British Petroleum Company Limited	Petroleum Products	11,172 314, 41, 65	A1, A3 C1, E6	B1, B4 D1	B1	0.33	A, B, C, E
2	The "Shell" Transport and Trading Company, Limited	Petroleum Products	11,166,167,168,172, 23, 315, 42, 62,65,66	A3, A6, C1, E1, E2, E4, E6, F1, F3	E1	E1	1.63	A, C, E, F
3	British-American Tobacco Company Limited	Tobacco	11, 41, 65	E6	B1, B4	B1	0.05	B, E
4	Imperial Chemical Industries Limited	Chemicals	11,166,168,171,172,175,177, 178, 23, 311,312,316, 41,42,43,44,46, 66	A6, B1, B2, B3, B4, B6 C1	B1, B3 B4	B1, B6	1.86	A, B, C
5	Unilever Limited	Food	11,172,176,178, 23, 315, 41, 65	B1, B2, B3, C1 E6	E1, E4	B1, E1	0.77	B, C, E
6	Imperial Group Limited	Food, Drink and Tobacco	11, 41,46, 65	E6, F4	B1, B4	B1	0.16	B, E, F
7	British Leyland Limited	Vehicles	11,176,178, 41, 524 62,65	A1, A5 B6, E6	B1, B4, B6	B1	0.58	A, B, E

Rank in the Times 1000	Company	Type of Industry	Areas of Social Responsibility Disclosure	Measurement Methods of Social Responsibility			Number of pages devoted to Social Responsibility Disclosure	Location in the Annual Report of Social Responsibility Disclosure
				Qualitative	Quantitative			
					Monetary	Non-Monetary		
8	Esso Petroleum Company, Limited	Petroleum Products	11,161,162,163,172,176,178, 21,23, 312,314,315,316 41, 62	A1, A3, C1, E1, E2, E3, E6	B1, B4 E1, E2, E3, F1	B1, E1, F1	6.38	A, B, C, E, F
9	The General Electric Company Limited	Electrical Engineering	11,176, 41, 65	A1, E6 F1	B1, B4	B1	0.50	A, B, E, F
10	The Rio Tinto-Zinc Corporation Limited	Mining	11,172, 21, 41, 65	E1	B1, B2, B4, E6	B1	0.26	B, E
11	Cavenham	Distributive Trades						
12	Ford Motor Company Limited	Vehicles	11,172, 41	C1	B1, B4	B1	0.27	B, C
13	The Bowater Corporation Limited	Paper	11, 322, 41	A3	A3, B1, B4	B1	0.20	A, B
14	Courtaulds	Textiles	11,121,166,168,178, 23, 41, 62,65	B1, B2 B6, E6	E1, E4	E1	1.29	B, E
15	Guest Keen and Nettlefolds	Metal Manufacture	11,172,176,178 41, 62, 65	A1, B1 B6,	B1, B4, E1	B1	0.67	A, B, E
16	Grand Metropolitan Limited	Miscellaneous Services	11, 41		E1,E4	E1	0.08	E

Rank in the Times 1000	Company	Type of Industry	Areas of Social Responsibility Disclosure	Measurement Methods of Social Responsibility			Number of pages devoted to Social Responsibility Disclosure	Location in the Annual Report of Social Responsibility Disclosure
				Qualitative	Quantitative			
					Monetary	Non-Monetary		
17	Tate & Lyle Limited	Food	11,172, 23, 316,322 41, 62,65	B6, E1, E2, E3 E6	B1, B4	B1	0.92	B, E
18	Associated British Foods Limited (George Weston)	Food	11, 41, 62,65	A6	B1, B4 E6,	B1	0.29	A, B, E
19	Dunlop Holdings Limited	Rubber, Sports Goods Etc.	11,172,178, 41, 62,65	A1, A6 C1, E6	B1, B4, B6, E6	B1	1.14	A, B, C, E, F
20	Rothmans International, Limited	Tobacco	11,172, 41, 66	A6, E1	B1, B4	B1	0.22	A, B, E
21	Czarnikow Group	Distributive Trades						
22	Gallaher	Tobacco						
23	Marks and Spencer, Limited	Distributive Trades	11,123,133,171,172,176,177, 178, 41,42,43,46, 524, 61	A1, A4 A5, A6	A4 B1, B4 E1	B1	2.09	A, B, E
24	Reed International Limited	Paper, Printing and Publishing	11,166,167,168,172 23 41, 62,65	A2, A6, B1, B6, C6, E6	B1, B4	B1	0.72	A, B, C, E

Rank in the Times 1000	Company	Type of Industry	Areas of Social Responsibility Disclosure	Measurement Methods of Social Responsibility			Number of pages devoted to Social Responsibility Disclosure	Location in the Annual Report of Social Responsibility Disclosure
				Qualitative	Quantitative			
					Monetary	Non-Monetary		
25	Amalgamated Metal Corporation	Metal Manufacture	11,172, 41, 65	E6	C1, E1, E4	E1	0.22	C, E
26	Lonrho, Limited	Distributive Trades	11, 41, 65	E6	B1, B4	B1	0.11	B, E
27	The Burmah Oil Company Limited	Petroleum Products	11,166,167,172,173,177, 23, 41,43, 62,65	B1, B2, B4, B6	B1, B4, E1	B1, B4	1.03	B, E
28	Texaco	Petroleum Products						
29	Hawker Siddeley Group Limited	Mechanical Engineering	11, 41, 62,65	B6	B1, B4	B1	0.30	B
30	C.T. Bowring and Co., Limited	Insurance	11,178, 41, 62,65	A1, B6	B1, B4	B1	0.30	A, B
31	Ranks Hovis McDougall Limited	Food	11,172,178, 41, 65	A1, C1, E6	B1, B4	B1	0.36	A, B, C, E
32	Inchcape and Co. Limited	Distributive Trades	11, 41		B1, B4	B1	0.14	B
33	Tozer, Kemsley and Millbourn	Finance						

Rank in the Times 1000	Company	Type of Industry	Areas of Social Responsibility Disclosure	Measurement Methods of Social Responsibility			Number of pages devoted to Social Responsibility Disclosure	Location in the Annual Report of Social Responsibility Disclosure
				Qualitative	Quantitative			
					Monetary	Non-Monetary		
34	BICC Limited	Electrical Engineering	11,176,177,178 41, 65	A1, E6	B1, B4	B1	0.38	A, B, E
35	Allied Breweries Limited	Drink	11,172,177,178, 41, 66	A1, A6 C1	A1, B1 B4	B1	0.77	A, B, C
36	Thorn Electrical Industries Limited	Electrical Engineering	11,166,168,172,176,178, 41, 65	A1, B1, E1, E6	B1, B4	B1	0.80	A, B, E, F
37	The Great Universal Stores Limited	Distributive Trades	11, 41, 65	E6	B1, B4	B1	0.07	B, E
38	Bass Charrington	Drink						
39	Sears Holdings Limited	Footwear	11, 41		B1, B4	B1	0.07	B
40	Cadbury Schweppes Limited	Food and Drink	11,172,176,177, 41 62,65	A1, C1 E6, F1	B1, B4 F1	B1	3.53	A, B, C, E, F
41	S & W Berisford Limited	Distributive Trades	11,178, 41	A1	B1, B4	B1	0.09	A, B
42	Unigate	Food and Drink	11,176 41	A1	B1, B4	B1	0.21	A, B

Rank in the Times 1000	Company	Type of Industry	Areas of Social Responsibility Disclosure	Measurement Methods of Social Responsibility			Number of pages devoted to Social Responsibility Disclosure	Location in the Annual Report of Social Responsibility Disclosure
				Qualitative	Quantitative			
					Monetary	Non-Monetary		
43	Rank Xerox Limited	Instrument Engineering	171,172,175,176, 41 62,65	A1, A6 E1	B4		1.14	A, E
44	P & O Steam Navigation Company	Transport	11,172, 41	A1	B1, B4	B1	0.10	A, B
45	The Boots Company Limited	Distributive Trades	11,171,172,173,176,177, 41, 61,62,63	A1, A6	B1, B4	B1	0.70	A, B
46	Lucas Industries Limited	Vehicles	11,172,177, 41, 65	E6	B1, B4	B1	0.26	B, E
47	Tube Investments Limited	Mechanical Engineering	11,161,162,166,168,172,173 174,176,177,178 21,23 311,312,315, 41,46 62,65,66	B1, B6, C1, E4, E6, F2, F4	A1, B1, B4 F2, F3	A1, B1, F1	2.42	A, B, C, E, F
48	Metal Box Limited	Metal Goods	11,166,168,173,176,178, 21,23, 316,322, 41,43,46 511,513, 65	A1, A4 E1, E3 E5, E6, F1, F2 F3, F4	B1, B4, F1, F2	B1, F1	1.28	A, B, E, F
49	The Distillers Company Limited	Drink	11,172,178, 41, 65	A1,E6	B1, B4	B1	0.26	A, B, E
50	Consolidated Gold Fields Limited	Finance	11, 23, 41,46 65,66	E6, F2, F4, F6	B1, B4	B1	0.75	B, E, F

Rank in the Times 1000	Company	Type of Industry	Areas of Social Responsibility Disclosure	Measurement Methods of Social Responsibility			Number of pages devoted to Social Responsibility Disclosure	Location in the Annual Report of Social Responsibility Disclosure
				Qualitative	Quantitative			
					Monetary	Non-Monetary		
51	E.M.I. Limited	Electrical Engineering	11,168,172,178, 41, 62,65	A1, E1, E6, F1	B1, B4 F1	B1	0.38	A, B, E, F
52	Thomas Tilling Limited	Distributive Trades	11,172,176,178 41 62,65	B1, B6	B1, B4	B1	0.41	B
53	F.W. Woolworth and Company Limited	Distributive Trades	11,123,133,168,172,173,176 178, 41,44, 65	C1, E1 E4, E6	B1, B4	B1	1.04	B, C, E
54	J.Sainsbury Limited	Distributive Trades	11,166,168,171,172,173,178 41, 524	A5, F1	B1, B4 F1	B1	0.42	B, F
55	J. Lyons and Company Limited	Food	11, 41, 65	A6	B1, B4	B1	0.08	A, B
56	Dalgety Limited	Distributive Trades	11,177 41		B1, B4	B1	0.25	B
57	Babcock and Wilcox Limited	Mechanical Engineering	11, 41, 62,65	E6	B1, B4	B1, E6	0.27	B, E
58	Spillers Limited	Food	11, 41, 65	E6	B1, B4	B1	0.06	B, E
59	Lonconex	Distributive Trades						

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60	Rolls-Royce	Vehicles						
61	Tesco Stores (Holdings) Limited	Distributive Trades	11, 41		B1, B4	B1	0.06	B
62	Coats Patons Limited	Textiles	11,172, 41, 65	A1, A6	B1, B4	B1	0.32	A, B
63	BOC International Limited	Chemicals	11,172,176,178, 41 526, 62,65,66	A1, A5, B6, E1 E6	B1, B4	B1	1.05	A, B, E
64	Brooke Bond Liebig Limited	Food	11,172, 41, 62,65	C1, B6 E6	B1, B4	B1	0.24	B, C, E
65	George Wimpey and Company Limited	Construction	11,173,176,178 41, 65	A1, E6	B1, B4	B1	0.33	A, B, E
66	Ultramar Company Limited	Mining	11, 41		B1, B4	B1	0.07	B
67	Beecham Group Limited	Chemicals & Allied Industries	11,172, 41, 65	C1, E6	B1, B4	B1	0.34	B, C, E
68	Mobil Oil Company Limited	Petroleum Products	11,161,162,163,166,168,172 173, 41,46 523, 66	A6, B1 B5, F4	B1, B4 F1	B1, F1	0.93	A, B, F

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69	Philips Electronic and Associated	Electrical Engineering						
70	Harrisons and Crosfield	Distributive Trades	11, 41, 65	A6	B1, B4 E6	B1	0.10	A, B, E
71	United Biscuits (Holdings) Limited	Food	11,172,177 314, 41, 524	C1, E3 E5	B1, B4	B1	0.46	B, C, E
72	Western United Inv. Co. (The Union International Company Limited)	Food	11,172, 41, 65	E6	B1, B4	B1	0.51	B, E
73	Ready Mixed Concrete Limited	Building Materials	11,172, 41	A1, C1	B1, B4	B1	0.16	A, B, C
74	Vauxhall Motors Limited	Vehicles	11, 41		B1, B4	B1	0.06	B
75	Tarmac Limited	Quarrying	11, 41, 62,65	B6	B1, B4	B1, E1	0.28	B, E
76	I.B.M. United Kingdom Holdings	Electrical Engineering						
77	The Plessey Company Limited	Electrical Engineering	11, 41, 62,65	E6	B1, B4	B1, E6	0.30	B, E
78	Reckitt and Colman Limited	Food	11,168,172,173,176,178, 41, 65	C1, E1, E6	B1, B4	B1	1.23	B, C, E

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79	British Aerospace [British Aircraft Corporation (Holdings)]	Vehicles	11,166,168,172,173,176 41	E1	E1, E4	E1	0.88	E
80	Gill and Duffus Group	Distributive Trades						
81	Massey-Ferguson Holdings Limited	Mechanical Engineering	11, 41		B1, B4	B1	0.06	B
82	Trust Houses Forte Limited	Miscellaneous Services	11,123,133,166,168,173,176, 178, 41,43,44, 524, 61,65,66	A1, E1, E6 F6	B1, B4 F1, F5	B1, F4	2.23	A, B, E, F
83	Trafalgar House Limited	Construction	11,177, 41, 65	A1, E6	B1, B4	B1	0.29	A, B, E
84	Whitbread and Company Limited	Drink	11,172,177 41,46, 524, 66	A1, A4, A5, A6, C1	B1, B4	B1	1.00	A, B, C
85	The British Electric Traction Company Limited	Transport	11, 23, 41, 65	A2, A6 E6,	B1, B4	B1	0.16	A, B, E
86	Standard Telephones and Cables Limited	Electrical Engineering	11,121,122,123,162,163,166 168,171,172,173,174 23, 41, 62,65	E2, E6 F1, F6	B1, B4 F1	B1, F1	7.25	B, E, F

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87	House of Fraser Limited	Distributive Trades	11,167,172, 41	B1, C1	B1, B4	B1	0.25	B, C
88	The Delta Metal Company Limited	Metal Manufacture	11,166,168,172,173,176,177, 178, 41,43,44 62,65	A1, A6, C1, E1 F1, F6	A1, B1, B4	B1	1.36	A, B, C, E, F
89	The Rank Organisation Limited	Miscellaneous Services	11,171,174,176, 41,42 525, 62,65	A1, A4 A5, A6	A4, B1, B4	B1	0.59	A, B
90	Vickers Limited	Mechanical Engineering	11,172, 322, 41, 65	A6, C1, E3, E6	B1, B4	B1	0.33	A, B, C, E
91	Arthur Guinness Son and Company Limited	Drink	11,172,176,178, 41	A1	B1, B4 E1	B1	0.36	A, B, E
92	Taylor Woodrow Limited	Construction	11, 316, 41, 65	E3, E6	B1, B4	B1	0.12	B, E
93	Glaxo Holdings Limited	Chemicals	11,172,178, 41, 62,65	A1, A6, E1, E6	B1, B4	B1	0.41	A, B, E
94	John Laing and Son	Construction						
95	Rowntree Mackintosh	Food and Drink	11,172,177 41, 62,65	A1, A6 C1, E6	A1, B1, B4	B1	0.51	A, B, C, E

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96	Ocean Transport and Trading Limited	Transport	11,172,177,178 41	A1	B1, B4	B1	0.68	A, B
97	Debenhams Limited	Distributive Trades	11,171,172 41	A1	A1, B1, B4	B1	0.35	A, B
98	The Associated Portland Cement Manufacturers Limited	Cement	11,171,176,178, 41,43,44, 315, 65	A3, B1 B4, B6	B1, B4	B1	0.29	A, B
99	Fitch Lovell Limited	Distributive Trades	11,172, 41	A1, C1	B1, B4	B1	0.22	A, B, C
100	Richard Costain Limited	Construction	11, 41, 65	E6	B1, B4	B1	0.08	B, E
101	Booker McConnell Limited	Distributive Trades	11,172, 41	B1, C1	B1, B4	B1	0.26	B, C
102	John Lewis Partnership Limited	Distributive Trades	11,172,177, 41	A1	B1, B4 E1, F1	B1, F1	1.37	A, B, E, F
103	Wheatsheaf Distribution and and Trading Limited	Distributive Trades	11,172, 41	C1	B1, B4	B1	0.16	B, C
104	Tampimex Oil	Distributive Trades						
105	The Dickinson Robinson Group Limited	Paper and Printing	11,174, 41, 62,65	B6, E6	A1, B1, B4	B1	0.30	A, B, E

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106	Turner and Newall Limited	Chemicals and Allied Industries	11,168,172, 41, 62,65	A1, A6, E6	B1, B4	B1	0.45	A, B, E
107	Chrysler United Kingdom Limited	Vehicles	11,172,174,178, 41, 524	A1, A5, E1	B4, E1	E1, F1	1.00	A, B, E
108	Bunge and Co. Limited	Distributive Trades	11, 41, 65	E6	B1, B4	B1	0.05	B
109	F.M.C. Limited	Food	11,168,173, 41, 511	A1, A5	B1, B4	B1	0.19	A, B
110	Tootal Limited	Textiles	11,168,176, 41, 65	B1, E6	B1, B4	B1	0.21	B, E
111	W.H. Smith and Son (Holdings) Limited	Distributive Trades	11,172,178, 41	A1, B1, C1	B1, B4	B1	1.38	A, B
112	Hanson Trust	Food	11, 41, 525	A5	B1, B4	B1	0.11	A, B
113	Ladbroke Group Limited	Miscellaneous Services	11,168,171,172,173 41	A1, F1	B1, B4 F1	B1, F1	0.85	A, B, F
114	Continental Oil Company Limited	Petroleum Products						
115	Associated Dairies	Food and Drink						

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116	Scottish & Newcastle Breweries Limited	Drink	11,162,163,168,172,173, 174,178, 41, 66	A1, E1, E6	B4, E1	E1	1.57	A, B, E
117	Johnson, Matthey and Co.	Metal Goods						
118	Pilkington Brothers Limited	Glass	11,166,168,172,173, 312,314,316, 41,46 62,65	A3, A4 B1, B6, E6	A3, B1, B4	A3, B1	1.19	A, B, E
119	Michelin Tyre Company Limited	Rubber	11, 41, 65	E6	B1, B4	B1	0.06	B, E
120	Tradax, England, Limited	Distributive Trades	11, 41		B1, B4	B1	0.07	B
121	U.D.S. Group Limited	Distributive Trades	11,172, 41	A1	B1, B4	B1	0.16	A, B
122	Thomas Borthwick and Sons Limited	Food	11, 41		B1, B4	B1	0.10	B
123	The Wellcome Foundation Limited	Chemicals	11,123,172, 41, 62,65	A1, A6 C1, E6	B1, B4 E1, F1	B1	0.44	A, B, C, E, F
124	S. Pearson and Son Limited	Paper, Printing & Publishing	11, 41		B1, B4	B1	0.11	B

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125	The Guthrie Corporation Limited	Agriculture	11, 41		B1, B4	B1	0.10	B
126	Wood Hall Trust	Construction						
127	I.C.L. Limited	Electrical Engineering	11,171,176,177,178 41, 65	A1, E6	B1, B4	B1, E1	0.42	A, B, E
128	Albright and Wilson Limited	Chemicals and Allied Industries	11,162,172, 23, 312, 41, 65	B1, B2 B6, E6	B1, B3 B4	B1	0.61	B, E
129	The Thomson Organisation Limited	Paper, Printing & Publishing	11,172,174, 41, 65	E6	B1, B4 C1, E1	B1, E1	0.25	B, C, E
130	Stenhouse Holdings Limited	Insurance	11, 41, 65	E6	B1, B4	B1	0.10	B, E
131	Louis Dreyfus and Co. Limited	Distributive Trades	11, 41, 65	E6	B1, B4	B1	0.08	B, E
132	Carrington Viyella Ltd	Textiles	11,178, 41, 62,65	B1, B6 E6	B1, B4	B1	0.17	B
133	Total Oil Great Britain	Distributive Trades						

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134	Guinness Peat Group Limited	Distributive Trades	11, 41		B1, B4	B1	0.12	B
135	Associated Engineering Limited	Mechanical Engineering	11,172,178, 41, 65	A1, A4, C1, E6	B1, B4 E1	B1	0.41	A, B, C, E
136	Lead Industries Group Limited	Metal Manufacture	11,166,168,172,178, 23, 41, 65	A1, A2, C1, E6	B1, B4	B1	0.32	A, B, C, E
137	Lex Service Group Limited	Miscellaneous Services	11,172,173, 41, 524	A5, C1 E1	B1, B4	B1	0.24	A, B, C, E
138	Blackwood Hodge	Miscellaneous Services	11,173,178, 23, 41,42 65,66	E1, E2 E6	B1, B4 E4	B1	0.51	B, E
139	Powell Duffryin	Distributive Trades	11,172,173,178, 41,42 65,66	A1, A4, A6, B1, E6	B1, B4	B1	0.32	A, B, E
140	Mitchell Cotts Group Limited	Transport	11, 41, 62,65	A6, B6, E6,	B1, B4	B1	0.10	A, B, E
141	Fisons Limited	Chemicals and Allied Industries	11,166,168,172,173,178, 23, 41,46 62,65	B6, E1, E2 E4, E6	B1, B4	B1	0.92	B, E
142	Bridon	Metal Goods						

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143	Glynwed Limited	Metal Manufacture	11,168,172,178, 23, 41, 65,66	B1, E6 F1, F2	B1, B4	B1, B6	1.42	B, E, F
144	Gulf Oil (Great Britain)	Distributive Trades						
145	Gestetner Holdings Limited	Mechanical Engineering	11,172, 41, 65	C1, E6	B1, B4 E1	B1, E1	0.58	B, C, E
146	British Home Stores Limited	Distributive Trades	11,171,172,173,176,177, 41, 524	A1, A5 F1	A1, B1 B4, F1	B1, F1	0.67	A, B, F
147	Alcan Aluminium (UK) Limited	Metal Manufacture	11,172,176,178, 41, 65	B1, F6	B1, B4	B1	0.43	B, F
148	Inco Europe	Metal Manufacture						
149	Leslie and Godwin (Holdings) Limited	Insurance	11,172, 41, 65	A6, E6	B1, B4	B1	0.15	A, B, E
150	Chloride Group Limited	Other Manufacturing Industries	11,168,172,174,176,177,178 41,46, 65	A1, A4 E1, E6	B1, B4	B1	0.70	A, B, E
151	Consolidated Petroleum	Petroleum Products						

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152	B.T.R. Limited	Rubber	11,172, 41, 65	E6	B1, B4	B1	0.09	B, E
153	The Steetley Company Limited	Mining	11,172,178, 23, 41,46 65	A2, A4 B1, B6 E6	B1, B4	B1	0.32	A, B, E
154	Thos. W. Ward Limited	Metal Manufacture	11,166,168, 41	B1	B1, B4	B1	0.18	B
155	London and Northern Group Limited	Construction	11, 23, 41	A2	B1, B4	B1	0.13	A, B
156	Hoechst UK	Chemicals and Allied Industries						
157	British Sugar Corporation	Food						
158	Northern Foods Limited	Food and Drink	11,172, 41	B1	B1, B4	B1	0.13	B
159	Davy International Limited	Mechanical Engineering	11,172, 41, 65	E6	B1, B4	B1, B6	0.21	B, E
160	Clarke Chapman	Mechanical Engineering						
161	Marley Limited	Building Materials	11,172, 41, 65	A1, E6	B1, B4	B1	0.19	A, B, E

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162	Mars Limited	Food	11,172, 41	E1	B1, B4	B1	0.33	B, E
163	BPB Industries Limited	Building Materials	11,174, 41, 62,65	A1, A6 E6	B1, B4	B1	0.32	A, B, E
164	Danish Bacon Company Limited	Distributive Trades	11,172, 41	A1	B1, B4	B1	0.21	A, B
165	Simon Engineering Limited	Mechanical Engineering	11,166,168,172,173,178, 41, 62,65	A1, A6 E6, F1	B1, B4	B1	0.68	A, B, E, F
166	Ciba-Geigy (UK) Limited	Chemicals	11,172, 316, 41	A1, A3	B1, B4	B1	0.35	A, B
167	Bunzel Pulp and Paper Limited	Paper	11,173,177, 322, 41	A1, A3	B1, B4	B1	0.18	A, B
168	Stone-Platt Industries Limited	Mechnical Engineering	11,162,168,172 41, 62,65	A1, B6 E1, E6	B1, B4	B1, E1	0.37	A, B, E
169	Anglo Chemical and Ore Co.	Distributive Trades						
170	Nafta (GB)	Distributive Trades						
171	Linfood Holdings Limited	Distributive Trades	11, 41		B1, B4	B1	0.10	B
172	H. J. Heinz Company, Limited	Food	11,174, 41, 526	A1, A5	B1, B4	B1	0.24	A, B,

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173	A. A. H. Limited	Distributive Trades	11, 41		B1, B4	B1	0.12	B
174	Redland Limited	Building Materials	11,172, 41, 65	E6	B1, B4 E1	B1	0.09	B, E
175	Kodak	Instrument Engineering						
176	Marchwiel Holdings	Construction						
177	Heron Corporation	Distributive Trades	11, 41		B1, B4	B1	0.11	B
178	Croda International Limited	Chemicals	11,172,174,177, 23, 322, 41, 62,65	A1, A2 A3, A6 E6	B1, B4	A1, B1	0.25	A, B, E
179	The British and Commonwealth Shipping Company Limited	Transport	11,172, 41, 65	C1, E6	B1, B4	B1	0.15	B, C, E
180	Petrofina (UK)	Petroleum Products						
181	Smith Industries Limited	Electrical Engineering	11,141,168,172,174,176,178, 41,44 62,65	A1, B1 B6, E6	B1, B4	B1, F1, F4	1.01	A, B, E, F
182	Monsanto	Chemicals						

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183	Hoover Limited	Electrical Engineering	11,162,172,174,178, 41, 511,523, 65	A1, A5 A6	B1, B4	A1, B1 E1	2.27	A, B, E
184	Johnson and Firth Brown Limited	Metal Goods	11, 41, 65	E6	B1, B4	B1	0.12	B, E
185	Newarthill	Construction	11, 41		B1, B4	B1	0.07	B
186	British Aluminium Co.	Metal Manufacture						
187	Associated Biscuit Manufacturers Limited	Food	11,171,172,173 41, 65	C1, E6 F1	B1, B4	B1, F1	0.86	B, C, E, F
188	Duport Limited	Metal Manufacture	11,166,168,172,176,178, 316,321, 41	A1, A3 C1, F1	B1, B4	B1, F1	0.47	A, B, C, F
189	Ever Ready Company (Holdings) Limited	Other Manufacture	11,166,168,172,173,176,178, 41, 61,62,65	A1, A6 E6	B1, B4	B1	0.79	A, B, E
190	Nurdin and Peacock	Distributive Trades						
191	Charringtons Industrial Holdings	Distributive Trades						

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192	Decca Limited	Electrical Engineering	11, 41		B1, B4	B1	0.16	B
193	Granada Group Limited	Miscellaneous Services	11,172, 41		A1, B1, B4	B1	0.23	A, B
194	Birmid Qualcast	Metal Goods	11,178, 41, 62,65	A1, B4 E6	B1, B4	B1	0.20	A, B, E
195	John Brown and Company Limited	Mechanical Engineering	11, 41, 65	E6	B1, B4	B1	0.08	B, E
196	Furness, Withy and Company Limited	Transport	11,172, 41, 65	A1, E6	B1, B4 E1	B1	0.21	A, B, E
197	Mallinson-Denny Limited	Timber	11,168, 41	B1	B1, B4	B1	0.15	B
198	Foseco Minsep Limited	Business Services	11, 23, 41, 65	E2, E6	B1, B4	B1	0.34	B, E
199	Montague L. Meyer Limited	Distributive Trades	11, 172, 41	B1	B1, B4	B1	0.21	B
200	Amoco (UK) Limited	Distributive Trades	11, 41		B1, B4	B1	0.13	B
201	Fairclough Construction Group Limited	Construction	11, 41		B1, B4	B1	0.04	B

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202	Paterson Zochonis and Company Limited	Chemicals and Allied Industries	11, 41		B1, B4	B1	0.09	B
203	Northern Engineering Industries Limited (Reyrolle Parsons Limited)	Electrical Engineering	11, 41, 62,65	B6, E6	B1, B4	B1	0.18	B, E
204	Hepworth Ceramic Holdings	Pottery, Glass, etc.						
205	Wilkinson Match Limited	Miscellanous Manufacturing Industries	11,166,168, 41, 65	B1, E6	B1, B4	B1	0.21	B, E
206	Coral Leisure Group	Miscellanous Services						
207	B.S.G. International	Distributive Trades	11,178, 41	A1	B1, B4	B1	0.17	A, B
208	Transport Development Group Limited	Transport	11,178, 41	B1	B1, B4	B1	0.17	B
209	Overseas Containers Limited	Transport						

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210	The Goodyear Tyre and Rubber Company (G.B.) Limited	Rubber	11, 41		B1, B4	B1, E1	0.13	B, E
211	Kenning Motor Group	Distributive Trades	11,168,172, 41, 65	A1, E6	B1, B4	B1	0.14	A, B, E
212	Cawoods Holdings Limited	Distributive Trades	11, 322, 41	A3	B1, B4	B1	0.13	A, B
213	The William Press Group	Construction	11, 41		B1, B4	B1	0.10	B
214	Matthew Hall and Co. Limited	Mechanical Engineering	11,166,168, 41	B1	B1, B4	B1	0.23	B
215	French Kier Holdings Limited	Construction	11, 41		B1, B4	B1	0.06	B
216	Masius, Wynne-Williams and D'Arcy-Macmanus (Holdings)	Business Services						
217	English China Clays	Pottery, Glass, etc.						
218	C. & J. Clark	Footwear	11, 41, 65	E6	B1, B4	B1	0.08	B, E
219	600 Group	Mechanical Engineering						

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				Qualitative	Quantitative			
					Monetary	Non-Monetary		
220	Nestlé Company	Food						
221	Safeway Food Stores	Distributive Trades						
222	UBM Group Limited	Construction	11,172,173, 41, 61,62	E1, F1, F6	B1, B4	A1, B1, F1	0.42	A, B, E, F
223	J. Bibby and Sons Limited	Food	11,172,176, 41	A1	B1, B4 E1	B1	0.32	A, B, E
224	Smith & Nephew Associated Companies Limited	Instrument Engineering	11,172, 41, 65	A6, E6	B1, B4	A1, B1	0.31	A, B, E
225	John Menzies (Holdings) Limited	Distributive Trades	11,172,173, 41	A1	B1, B4	B1	0.17	A, B
226	Currys Limited	Distributive Trades	11,172,173,177, 41	A1	B1, B4	A1, B1	0.48	A, B
227	The British Printing Corporation Limited	Printing & Publishing	11,161,162,166,168,172, 41,43,44, 65	A1, E6	B1, B4	A1, B1	0.48	A, B, E
228	Swan Hunter Group Limited	Shipbuilding	11, 41, 65	E6	B1, B4	B1	0.23	B, E
229	Manbré and Garton	Food						

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				Qualitative	Quantitative			
					Monetary	Non-Monetary		
230	Norcros	Mechanical Engineering						
231	Caterpiller Tractor Company	Mechanical Engineering						
232	Borregaard Industries	Paper						
233	News International Limited	Paper, Printing & Publishing	11,174, 41		B1, B4	A1, B1	0.13	A, B
234	Lamson Industries	Paper & Printing						
235	Haden Carrier Limited	Mechanical Engineering	11,173, 41, 65	B1, E6	B1, B4	B1	0.14	B, E
236	Esso Chemical	Chemicals						
237	The Weir Group Limited	Mechnical Engineering	11,168,174, 41, 65	A1, E6	B1, B4	B1	0.26	A, B, E
238	Grattan Warehouse Limited	Distributive Trades	11,178, 41	A1	B1, B4	B1	0.12	A, B

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				Qualitative	Quantitative			
					Monetary	Non-Monetary		
239	APV Holdings Limited	Mechanical Engineering	11,174, 41, 65	A1, E6	B1, B4	B1	0.12	A, B, E
240	BSR Limited	Electrical Engineering	11,178 41	A1	B1, B4	B1	0.29	A, B
241	Geest Holdings Limited	Distributive Trades	11, 41		B1, B4	B1	0.08	B
242	Ellerman Lines Limited	Transport	11,166,168,172,173, 41, 65	A1, B1 E6	B1, B4	B1	0.24	A, B, E
243	Foster Wheeler Limited	Mechanical Engineering	11, 65	E6	B1	B1	0.05	B, E
244	Procter and Gamble	Chemicals and Allied Industries						
245	Hargreaves Group	Transport	11,121,162,163,168,172,173 23, 41	A1, F1, F2	B1, B4	B1, F1	0.95	A, B, F
246	Chubb and Son Limited	Metal Goods	11, 41, 65	E6	B1, B4	B1	0.12	B, E
247	The Burton Group Limited	Distributive Trades	11,172 41		B1, B4, E1	B1	0.27	B, E

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					Monetary	Non-Monetary		
248	Cape Industries	Construction						
249	Tioxide Group	Chemicals						
250	Westland Aircraft	Vehicles	11,162,163,172,173,174,178 41	F1	B1, B4	B1, F1	1.12	B, F
251	Chaterhouse Group	Finance						
252	Freemans (London SW9) Limited	Distributive Trades	11,172 41	B1	B1, B4	B1	0.19	B
253	Henlys	Distributive Trades	11,168,173, 41	A1, B1	B1, B4	B1	0.18	A, B
254	Pauls and Whites	Food						
255	Automative Products Limited	Vehicles	11,121,171,172,173,174,178 41, 62,65	A1, A6 E6	B1, B4	A1, B1 F1	1.58	A, B, E, F
256	De La Rue Co.	Printing	11,168,171,178 41	F1	B1, B4	B1	0.23	B, F
257	Empire Dairies	Distributive Trades						

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258	Derby and Company	Distributive Trades						
259	Hunting Gibson Limited	Mining	11, 41		B1, B4	B1	0.08	B
260	Racal Electronics Limited	Electrical Engineering	11,177, 41		A1, B1, B4	B1	0.19	A, B
261	Dowty Group	Mechanical Engineering	11,172, 41 524, 65	A1, A5 E6	B1, B4	B1	0.26	A, B, E
262	Henry W. Peabody Grrain	Transport						
263	Chevron Oil (U.K.)	Distributive Trades						
264	Barrow Hepburn Group Limited	Leather Goods	11, 41, 65	E6	B1, B4	B1	0.11	B, E
265	Dixons Photographic	Distributive Trades						