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## SOCIAL AND ETHICAL ACCOUNTING, AUDITING AND REPORTING: HOW TO DO IT

*Simon Zadek, Peter Pruzan and Richard Evans*

There is a growing body of experiences in corporate SEAAR, particularly across Europe and North America.<sup>1</sup> Associated with this development has been the emergence of varied terminology and differing approaches. There are ethical accounts, social audits, ethical audits, social performance reports, and social reviews, just to name a few. In some cases these methodologies appear very similar. The ethical audit advocated by the European Institute for Business Ethics and the Nijenrode Business School,<sup>2</sup> for example, is similar in many respects to the social accounts method developed, adopted, and applied by Traidcraft plc and the New Economics Foundation.<sup>3</sup> The Body Shop International's ethical audit is, on the other hand, quite different since it represents a combination of social, environmental and animal testing audits.<sup>4</sup> This in turn is only comparable in parts to the 'ethical accounting' developed at the Copenhagen Business School and adopted by Sbn Bank and other companies and public sector organizations across Scandinavia.<sup>5</sup>

Much of the diversity in practice can be attributed to at least four significant differences in:

- interests on the part of those initiating the process;
- types of organizations;
- contexts; and
- theoretical and philosophical roots.

Many of these differences are entirely acceptable in that they reflect varied needs for which different methods are required. For example, organizations such as Sbn Bank in Denmark and Wøyen Mølle in Norway start with an emphasis on the evolution of shared values through ethical accounting. Not surprisingly, they focus on dialogue with key stakeholders rather than third-party verification. On the other hand, a company concerned with meeting the challenge of public accountability may well place far greater emphasis on securing adequate comparison with other companies or accepted social norms and benchmarks. For example, the move by companies in the textile, sportswear and toy sectors to adopt and comply with labour codes of conduct in their production in, and purchases from, the South, will focus on external verification precisely because the pressure comes from public consumer campaigns.<sup>6</sup> Similarly, a company principally concerned with public accountability may focus exclusively on the production of a report for external publication, whereas a company with an interest in SEAAR as a tool to facilitate internal change may have little or no interest in the published document, but may instead focus on the process of accounting, and the reports generated for internal use.

Identifying the right approach to SEAAR is therefore intimately related to *why* the particular organization engages in the exercise. This implies that there is no single approach that is correct for all situations: there is strength in diversity for diverse needs.

At the same time, there are variations between methods and practices that are not justified by any objective difference in circumstance and need. These are variations that may be rooted in two possible reasons for poor practices:

- an underspecification of the accounting, auditing and reporting process because of insufficient knowledge, skills, experience and/or resources applied in the process; and/or
- a deliberate attempt to underspecify the accounts and/or the verification process in order to report in a less than accurate, incomplete or unintelligible, manner.

For example, a company may undertake an externally verified exploration of the social impact of one area of its operations knowing full well that there

is a critical problem associated with an area of work that they have chosen to omit from the assessment. An SEAAR exercise undertaken by a bank that did not deal with the nature of its investment portfolio, or an exercise by an advertising company that did not consider with care the nature of the images they were promoting and their effect, could not really be seen as being of adequate quality. Similarly, a company may forgo a dialogue with staff to determine key issues of concern because of inadequate resources, and as a result develop a survey that omits a range of critical issues that would profile the company in a negative light, or that are important for the staff and therefore for their prosperity to be responsible, committed and creative employees. It would not be appropriate, for example, for a fair trade organization (eg one seeking to offer a better deal to community suppliers in the South by offering such added benefits as a better price) to carry out an SEAAR exercise without adequate consultation with Southern suppliers.<sup>7</sup>

The challenge is to be able to distinguish between acceptable and unacceptable reasons for methodological (and terminological) differences. The failure to meet this challenge effectively will allow the 'bad to chase out the good', as companies and consultants alike find good reason to cut corners to save costs and to omit difficult areas from accounting, auditing and reporting. The ability to distinguish good from bad practice therefore provides a foundation on which standards can be set.

### **A Brief History of 'How'**

An extensive array of methods has been offered up over the years for assessing and reporting on corporate social and ethical performance. This is not the place to attempt a scholarly exposition of this history, which has been achieved more effectively elsewhere.<sup>8</sup> Of interest here is not so much the history of how social and ethical accounting and auditing have been talked about and practised for their own sake. Rather, the intention is to show how today's emerging practice is informed by both the theoretical literature and earlier practical experience.

One of earliest proposed approaches to social auditing was that of the *cost or outlay audit*.<sup>9</sup> The basic idea, as the name suggests, was to specify the financial costs associated with social activities, and to set these out as an account of the social contribution made by the organization. The major disadvantage of this approach is that financial costs give little idea of the outcome's value. As one assessment of this method concluded: 'since the cost approach makes no effort to measure benefits to the corporation and others associated with the expenditures, it provides little evaluative information to the public.'<sup>10</sup>

Despite this very real limitation, the ready availability of financial data from conventional financial accounts and management systems has made this approach a durable one over the years. Many companies, for example, report

on the amount of money that they donate to charitable causes, often expressed both as an absolute amount and as a percentage of pretax profits or gross earnings.<sup>11</sup> The cost or outlay approach has been formalized into a method also known as the *social balance*, effectively a record of financial costs based on a reanalysis of the audited financial accounts associated with actions that can be attributed to the company's social rather than its financial mission. This approach, for example, is currently being used by the Italian retail co-operative movement as the core of its *social balance* accounting, as in the case of Coop Italia.

A second methodological strand that has found its way into modern usage is *constituency accounting*, named by Grey in 1973.<sup>12</sup> Grey argued that traditional financial accounting could simply not accommodate the needs of SEAAR. Instead, an entirely new calculus was required. What he proposed was that companies should examine and report against the demands of key constituencies, whether inside or outside of the company concerned.<sup>13</sup>

There is little evidence of this 'constituency-based' approach having been taken up at the time that it was established at a theoretical level. As the US Department of Commerce commented at the time:

While this approach attempts to assess benefits as well as costs, some critics believe that it does not state benefits in terms that are meaningful to constituencies outside the corporation. It has not been widely used in corporate social reporting.<sup>14</sup>

The concern raised about the accuracy and usefulness of benefits defined by constituents is one that warrants careful examination. However, such concerns have not prevented this form of consultation becoming a core part of many of the contemporary approaches to SEAAR in the guise of 'stakeholder consultation and dialogue'. As one senior corporate executive remarked at the time: 'All . . . [corporations] . . . must . . . be visibly attentive to public interest – to the public interest as the *public* views it.'<sup>15</sup> Consultation has not only become a vital means by which the views of key stakeholders can be elicited, it has also become a way of legitimizing a company's social and ethical accounting process. Very recently, for example, the financial services company Allied Dunbar produced a publicly available report covering some of its philanthropic activities. Rather than report the financial costs of its contribution following the *outlay approach* described above, Allied Dunbar chose to follow more closely the *constituency* or *stakeholder approach*. In its summary of its *Stakeholder Accountability Report* for 1996, the company declares:

1996 marks the twenty-first anniversary of the Staff Charity Fund [SCF]. What better time to study the views of those with most interest in its work. The future will hold new challenges and the way the SCF develops the relationship it enjoys with its stakeholders lies at the heart of what happens next.<sup>16</sup>

Stakeholders' views have been increasingly seen as a critical part of any thorough accounting, auditing and reporting process. However, it has also been clear from an early stage that even the most accurate reporting of these perceptions may not be adequate. For example, in one social accounting and auditing exercise with a British company, staff repeatedly highlighted the view that they were being paid too little. In considering the wage data, it became clear to the auditors that they were in fact being paid just as much as people working for other companies that required broadly the same 'job of work' in the same region of the country. Eventually, the external auditor understood that since the company declared itself to have unusually high moral and ethical codes and values, staff expected to be paid what they saw as a *decent* rather than a *comparable* wage. What needed to be highlighted in this case was the tension revealed by examining the relationship between normal comparative financial indicators and staff perceptions. To omit either would have been to miss the point (or at least *this* point).

The limitations of using financial data are not therefore seen as a reason for rejecting all manner of quantification. Similarly, the limitations in working with people's subjective views are not a reason to ignore or marginalize them.

Financial data, furthermore, has only been one element of the quantified information about social and ethical performance that has been publicly available. What has emerged from the early 1970s has been the practice of *corporate rating* against key social and ethical performance criteria. While many different approaches to this have been adopted, the essence of the practice has been to rate companies in one or both of two possible ways: against predetermined 'binary' criteria that seek the answer to the question: 'Is this company doing this?'; and against scaled criteria that seek to answer the question: 'How is the company doing in this area?'

One of the earliest documented users of this approach was the Interfaith Centre on Corporate Responsibility (ICCR), which took a particular interest, for example, in the practices of companies doing business in South Africa. Probably the most well-known contemporary practitioner in this area is the Council on Economic Priorities (CEP), a public-interest organization based in New York. CEP has been producing corporate ratings against social and environmental criteria for over 25 years, with a particular focus on retail companies and the education of consumers in their purchasing decisions through its annually produced *Shopping for a Better World*.<sup>17</sup> Corporate rating has developed rapidly since the mid 1980s, with a host of public interest NGOs entering the field with their own rating systems aimed at feeding the consumer public, and/or the growing number of ethical investment funds, with information.<sup>18</sup> Most recently, a group of these organizations from North America and Europe have come together in an effort to share information and to move towards some level of convergence in the manner in which screening is being undertaken.

A related development emerged in the 1970s on the back of the so-called *social indicators* movement.<sup>19</sup> Whereas *corporate rating* was an exclusively

external activity undertaken by public interest, non-profit organizations and researchers, companies became more involved in the development and application of social performance indicators. The drive towards defining social indicators was closely intertwined with the growing interest in what we would now call stakeholder dialogue. For example, the US Department of Commerce saw some form of community consultation process as initiating the development or selection of relevant social indicators.

For example, in establishing annual objectives for a corporate community affairs program, a firm would first attempt to develop a quality of life profile for the community, using social indicators regarding unemployment, environmental quality, education, health, and so on. Thereafter a firm could establish performance indicators for some or all of its own activities in relation to these indicators, establish priorities in relation to each other and then measure performance in relation to objectives and their assigned importance.<sup>20</sup>

Community-based approaches to selecting indicators of social and environmental development have emerged as a major theme of community development in the 1990s, particularly following the historic signing of the so-called Local Agenda 21 at the Earth Summit in Rio in 1992.<sup>21</sup> While certainly intended as an empowering process, these approaches can equally suffer from identifying what is important and how best to measure it. As Kim Davenport comments:

[An] objection is that the catalogue of social indicators is not truly comprehensive, but simply reflects the concerns of the most active or organized constituencies. Also, establishing a fixed catalogue of social indicators might give corporations permission to ignore those issues outside of the catalogue. Moreover, the fixed catalogue could also prove a hindrance to the development and adoption of new, more effective, indicators.<sup>22</sup>

These perceived shortfalls of the pure constituency-based approach to selecting social indicators have opened the door to a complementary approach to the selection process: through identifying best practice or conventionally used indicators and benchmarks. For example, any report on the issue of gender within an organization would today be quickly ridiculed and dismissed if it omitted to report the number of men and women in different positions within the organization, or failed to provide data regarding wages and salaries to allow the proposition 'equal pay for equal work' to be tested. Similarly, any corporate environmental report found to have omitted information on the company's failure to comply with statutory regulations of self-imposed standards would be challenged in today's environmental-compliance sensitized world. At any time there are key issues for which

there exist performance indicators that are widely acknowledged as an appropriate and essential part of any performance assessment and disclosure process.

Contemporary forms of SEAAR have drawn inspiration from many earlier approaches and initiatives, such as those highlighted in this section. For example, the Ethical Accounting Statement approach that emerged in Denmark in the late 1980s, through the work of Peter Pruzan and Ole Thyssen at the Copenhagen Business School, has focused exclusively on what might in earlier times have been called constituency accounting, rather than stakeholder dialogue.<sup>23</sup> Similarly, the approach developed by Traidcraft and the New Economics Foundation has drawn on the inspiration and calculus of the social indicators movement, as well as the lessons gained through the development of environmental auditing in the 1980s.<sup>24</sup> More generally, the analytic framework offered in the following paragraphs, certainly arises from the rich and complex history of SEAAR.<sup>25</sup>

## Understanding Quality

This historical thumbnail sketch of how SEAAR has evolved highlights some of the key methodological strands, and their possible relationships with differing reasons for the implementation of specific practices. However, despite the need for continued sensitivity towards the needs of diversity, there are also good reasons for establishing methods to compare different approaches.

In short, we need to find ways to be able to tell if a specific exercise in social and ethical accounting, auditing and reporting is worth the candle.

We have developed for this purpose an analytic framework for exploring the quality of a particular experience or initiative in SEAAR. In doing so, we have been painfully aware of the sheer scale of experimentation in this area, and of its increasing quality across many different contexts. In this light, we offer the tool not as a finished product, but as a first stab at what needs to be continued over the coming period. The framework is a means of categorizing experiences or initiatives through:

- *principles* of ‘good practice’ in SEAAR,
- the *elements* into which the principles can be subdivided to enable more detailed analysis, and
- the *level and quality* of reporting.

Each of these elements of the framework are discussed below. The aim here has not been to judge the relative quality of the cases. At any rate each has been chosen for inclusion on the basis of representing good practice. Rather, the aim has been to use the case studies to demonstrate how the tool can be employed in assessing the relative merits of different approaches.

**Table 9.1:** *Typology*

<i>Type</i>	<i>Name</i>	<i>Cases</i>	<i>Description</i>
A	Corporate-Led Reporting	Glaxo Holdings plc	Statutory disclosure plus additional internally generated, non-verified discretionary disclosure
B	Ethical accounting	Aarhus Municipality Sbn Bank Wøyen Mølle	Non-statutory disclosure of unverified stakeholder perceptions based on stakeholder-selected issues and questions
C	Social evaluation	Ben & Jerry's Homemade, Inc.	Non-statutory disclosure of stakeholder views and social indicators based on exploration and views of external assessor
D	Social accounting & auditing	The Body Shop International plc Traidcraft plc	Statutory and non-statutory disclosure of stakeholder views, indicators and benchmarks with external verification of process
E	Outlay audit (social balance)	Coop Italia	Non-statutory disclosure of reanalysis of audited financial data to reveal social costs
F	Disclosure ranking	VanCity Savings and Credit Union	Non-statutory disclosure by external body of extent of public disclosure

### BOX 9.1 The eight principles of quality

- Inclusivity
- Comparability
- Completeness
- Evolution
- Management Policies and Systems
- Disclosure
- Externally Verified
- Continuous Improvement

### An initial typology of cases

We begin by offering a simple typology for the nine cases. The six different types (A to F) set out in Table 9.1 are not intended to be exhaustive, but rather to illustrate some of the key dimensions of the cases in their respective clusters.

### The ‘quality’ principles

By voicing the history of different approaches to SEAAR, we are provided with a ready list of hints as to what are some of the key dimensions against



which quality needs to be assessed. These have been formalized into eight key principles of quality.

### ***Inclusivity***

The principle of *inclusivity* means that the social and ethical accounting and auditing must reflect the views and accounts of all principal stakeholders, not only the particular stakeholders who have historically had the most influence over the evolution of the organization's formal mission statement. What this means, furthermore, is that the assessment cannot be based on a single set of values or a single set of objectives. While over time the various stakeholder groups *may* come to agree on many things, the assessment process cannot assume this to be the case and must therefore accommodate such diversity.<sup>26</sup> It is important to distinguish between consultation in the form of one-way surveying – ie essentially market research – and dialogue, which can be understood as a two-way process that brings the views and interests of all parties to the table.<sup>27</sup>

### ***Comparability***

The principle of *comparability* is quite simply that SEAAR enables the performance of the organization to be compared as a basis of assessment. Comparison may be based on the organization's performance in different periods, or on external benchmarks drawn from the experience of other organizations, statutory regulations or non-statutory norms. It is important that external benchmarks are selected for their relevance and legitimacy, not only for their accuracy. For example, comparisons of wage rates with outside organizations need to select the appropriate types of organizations, and also need to draw the comparative data from sources that would be considered legitimate (such as government statistics, or labour-research bodies).<sup>28</sup>

### ***Completeness***

The principle of *completeness* means that no area of the company's activities can be deliberately and systematically excluded from the assessment. This principle is important to ensure that the company does not 'cherry-pick' the areas of its activities which will show – on inspection – the most positive social and ethical performance.

Comprehensiveness in combination with the principle of inclusivity raises major practical problems, given the potential magnitude of the assessment process. A major manufacturing company may have thousands of products produced and marketed in a large number of contexts and cultures.

What this means in practice is that not everything can be covered at once, or more specifically during any one cycle. The essence of this principle is therefore that no area of the organization's activities are necessarily excluded from any particular cycle because of any unwillingness on the part of the organization – ie no 'malicious exclusion'. Over several cycles, furthermore, all of the principal stakeholder groups would be covered through an exploration of all the effects of all the organization's activities.<sup>29</sup>

### ***Evolution***

It is not possible, as we have here noted, to cover an entire company's 'social footprint' at one time; furthermore, it is likely that this footprint will vary over time. Furthermore, the impact and meaning given to its footprint will also vary, as the composition and expectations of key stakeholder groups change over time. The implication of this is that one-off accounting exercises are not sufficient for the needs of management – in seeking to understand what is happening – or in terms of the company's accountability to the wider public. A key principle against which the practice of SEAAR needs to be judged is therefore whether the exercise is repeated in a manner that demonstrates learning and continual challenge. That is, the process must follow an *evolutionary* path over time.

### ***Management policies and systems***

As with both financial and environmental auditing, it is not enough for an organization to get a snapshot of its performance in order to secure its learning processes. It is essential for any systematic process that the organization develops clear policies covering each accounting area, and systems and procedures that allow the accounting process itself to be controlled and evaluated and the organization's awareness and operation of policies and commitments to be assessed through an audit process.

### ***Disclosure***

The question of whether the social and ethical accounting and auditing processes are intended primarily for an internal audience, ie as a management tool, or whether they are a means of contributing to organizational learning or to strengthening public accountability, is a conflict that has figured in both the reasons *why* companies engage in the process and the *means by which* the accounting is undertaken. Clearly the focus on an internal audience obviates any need to disclose the results to the public, or even perhaps within the organization beyond the management and board. At the same time, an

interest in establishing and maintaining organizational learning and a dialogue culture as well as in strengthening the company's legitimacy in the public domain would require some sort of disclosure. Where a disclosure route is chosen, the matter of quality concerns the extent to which disclosure is a formality or an active means of communication with key stakeholders and the wider public. Merely publishing a document – however comprehensive – does not constitute good practice if the document is difficult to obtain, costly, misleading, or unintelligible to key stakeholders.

### *Externally verified*

The need for external verification concerns, again, the relative emphasis between SEAR as a management tool and as a means of organizational learning; or as a means of strengthening accountability and legitimacy. Clearly, an emphasis towards the latter implies the need for external verification of some kind. The challenge is, of course, what kind of external verification process will be of a sufficiently high professional quality and independence for it to validate the published material.

### *Continuous improvement*

The aim of any SEAR system must be to assess progress rather than merely retrospective performance. That is, any relevant system must be able to identify whether the organization's performance has improved over time in relation to the values, missions and objectives set by the organization and its stakeholders, as well as by those established through broader social norms. Moreover, beyond the measurement of progress is the need for a method that actively encourages 'raising the floor' of social and ethical performance.

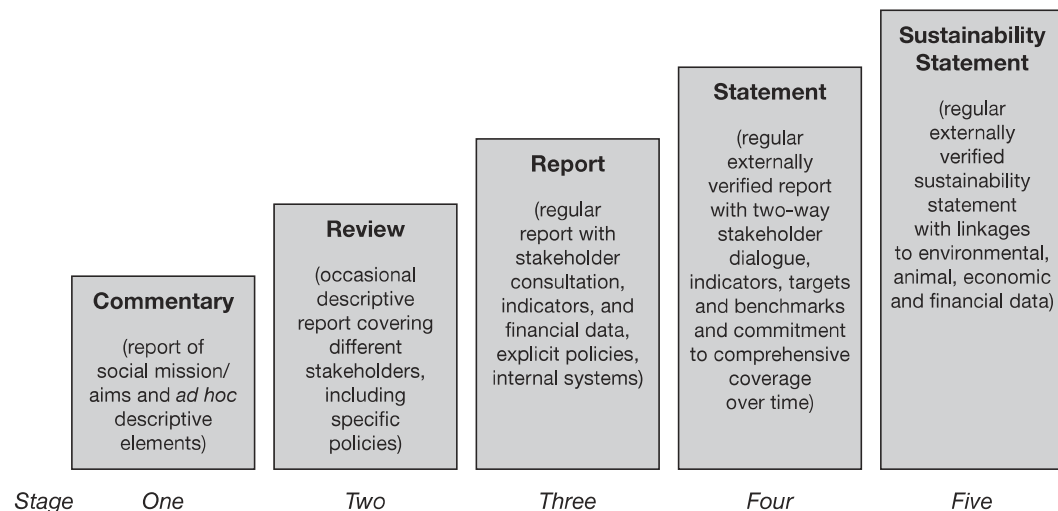
These eight principles seem to represent the most basic dimensions of quality against which any social and ethical accounting, auditing and reporting process can and should be judged. That does not mean to say that a case where several principles are not being adhered to is necessarily 'poor' in quality. For example, the Scandinavian applications of Ethical Accounting do not include external verification (principle seven), yet this may well be because it is not required given the societal context or the particular applications. So the principles cannot, in isolation, be a basis for intercase judgement, although they *can* provide a checklist of things to look for in any assessment or selection process.

## Scoring Quality

The eight principles are relevant in offering an initial basis for assessing the quality of any exercise in SEAAR. They are, however, too general to be of use in anything but the most basic assessment process. For example, how can one distinguish between stakeholder consultation (essentially limited and one way) and an approach to stakeholder dialogue that is intended to be more deeply participative? Similarly, there are clearly many different ways in which external verification, comprehensiveness, and disclosure can be interpreted in practice.

The approach taken here has been to consider in more depth the possible elements that define the quality of each principle set out above. Specifically, the principles have been broken down into 45 elements against which any particular social and ethical accounting and auditing process can be judged. These elements have been derived from the experience of the case studies, the broader experience of the editors and an analysis of the literature.<sup>30</sup>

The cases in the next section have been ‘approximately rated’ by these elements. The rating is approximate in that there has been no attempt to construct a numerical scoring system. To do so would imply, amongst other things, that there was some *a priori* basis on which these principles and elements can be seen to be more or less important. For example, it would be problematic to add up the smiling or gloomy faces in the table to determine which organization or method had proved more successful. This stage would require comparisons between organizations with similar aims and comparable contexts.



**Figure 9.1:** Social and ethical disclosure: assessing progress

**Table 9.2:** Quality rating against basic principles and elements

Case	Inclusivity	Comparability	Completeness	Evolution	Policies/ Systems	External Verification	Disclosure	Continuous Improvement
Aarhus	●	○	●	●	●	□	●	●
Ben & Jerry's Homemade, Inc.	●	○	●	●	□	●	●	○
The Body Shop International	●	○	●	●	●	●	●	●
Coop Italia	□	●	□	□	□	□	●	□
Glaxo Holdings plc	□	○	□	□	○	□	○	○
Sbn Bank	●	○	●	●	●	□	●	●
Traidcraft plc	●	●	●	●	●	●	●	●
VanCity	○	●	○	○	○	○	●	○
Wøyen Mølle	●	○	●	●	●	□	●	●

● = method seeks to address principle

○ = method partially seeks to address principle

□ = method does not adequately seek to address principle

### Assessing the Quality of Disclosure

The problems of *ranking* through such scoring and weighting have already been highlighted and concern, in particular, the need to recognize legitimate differences in SEAR processes. At the same time, there is a demand by all stakeholders to be able to assess the quality of any *disclosure* of social performance, and therefore by implication of the accounting and auditing underlying the 'discovery process'. Drawing inspiration and method from work undertaken by the United Nations Environment Programme (UNEP) and the environmental consultancy SustainAbility Ltd, we have constructed a five-stage developmental model for social and ethical reporting.

The basis of scoring an organization against the five developmental stages of social and ethical reporting is, in the main, drawn from the principles set out above and the elements in the annex to this chapter. An analysis of Glaxo's experience, for example, would place it in stage one, although the availability of some financial data would give it elements of stage three characteristics. Similarly, a major difference between Sbn Bank and Traidcraft's experience, that of external verification, would separate them into stages three and four respectively.

This five-stage model clearly does take the step of defining, to a large degree, what principles and elements are more important than others. While this is a step cautioned against by the editors themselves in earlier sections, the model does illustrate where the whole assessment of the quality of SEAR should go in the future. Specifically, *if* there is a need to be able to judge accounting, auditing and reporting against each other, some form of developmental model will almost inevitably be used, whether formally or implicitly.

Of course, the 'inevitability' of the need for some developmental model depends, in large part, whether or not some form of certification of quality is necessary, either now or in the future.

### Notes

- 1 Published information on corporate social and ethical accounting and auditing almost exclusively covers Western Europe and the US. Research has revealed, however, that other experiences exist. One of the most important of these is probably the ground-breaking work of the Indian industrial conglomerate Tata Industries, which is covered in Institute of Social and Ethical Accountability (1997) *Sixth Environment Foundation Windsor Castle Roundtable on Social and Ethical Accounting Auditing and Reporting Accountability Works 1*, Institute of Social and Ethical Accountability, London.
- 2 Nijenrode University, The Netherlands Business School/European Institute for Business Ethics (1995) *The Technology of Ethical Auditing: An Outline* Nijenrode University, Breukelen.
- 3 S. Zadek and R. Evans (1993) *Auditing the Market: the Practice of Social Auditing* Traidcraft/New Economics Foundation, Gateshead.
- 4 *The Body Shop Approach to Ethical Auditing* The Body Shop International, Littlehampton, 1996. See also the entire *Values Report* (1996) which contains all three audits.

- 5 P. Pruzan (1995) 'The Ethical Accounting Statement', *World Business Academy Perspectives* Vol. 9, No. 2, 1995: pp. 35–46.
- 6 See, for example, the paper prepared on this subject by a group of Northern non-governmental organizations, Corporate Monitoring Working Group (1996) *Monitoring Codes of Conduct*, prepared by the New Economics Foundation and the Catholic Institute for International Relations, London.
- 7 See, for some discussion of this, S. Zadek and P. Tiffen (1996), 'Fair Trade: Business or Campaign' *Development* Autumn 1996: 3: pp. 48–53.
- 8 For those interested in some of the historical background that is at best only alluded to in this section, we would suggest R. Estes (1992) 'Social Accounting Past and Future: Should the Profession Lead, Follow – or Just Get Out of the Way?' *Advances in Management Accounting*, 1: pp. 97–108; R. Estes (1995) *Tyranny of the Bottom Line: Why Corporations Make Good People Do Bad Things* Berrett-Koehler, San Francisco; R. Gray, D. Owen & K. Maunders (1996) *Accounting and Accountability: Social and Environmental Accounting in a Changing World* Prentice Hall International, Hemel Hempstead; C. Medawar (1976) 'The Social Audit: A Political View', *Accounting, Organizations, and Society*, 1(4) pp. 389–394; and S. Zadek and P. Raynard (1995) 'Accounting Works: A Comparative Review of Contemporary Approaches to Social and Ethical Accounting', *Accounting Forum* 19 (2/3) Sept/Dec.
- 9 D. Blake, W. Frederick and M. Myers (1976) *Social Auditing: Evaluating the Impact of Corporate Programs* Praeger, New York.
- 10 US Department of Commerce (1979) *Corporate Social Reporting in the United States and Western Europe: Report of the Task Force on Corporate Social Performance* US Department of Commerce, Washington, DC: p. 6.
- 11 See, for example, D. Logan (1993) *Transnational Giving: An Introduction to the Corporate Citizenship Activity of International Companies Operating in Europe* The Directory of Social Change, London.
- 12 Discussed in M. Dierkes and R. Bauer (eds) (1973) *Corporate Social Accounting* Praeger, New York.
- 13 A related method, known as *human asset evaluation*, sought to measure the value of productive capability of the firm's human organisation, and simultaneously the loyalty of the firm's employees and other constituencies affected by the organisation. There is a very interesting development in this approach being trialed by the Swedish insurance company, Skandia, under the title intellectual capital valuation. See Skandia (1994) *Visualising Intellectual Capital in Skandia: Supplement to Skandia's 1994 Annual Report* Skandia, Sweden.
- 14 US Department of Commerce (1979), *op cit*: p. 6.
- 15 John Filer, CEO of Aetna Life and Casualty, quoted in US Department of Commerce (1979), *op cit*: p. vi.
- 16 Allied Dunbar (1996) *The Big Picture: A Summary of the Allied Dunbar Staff Charity Fund Stakeholder Accountability Report for 1996* Allied Dunbar, Swindon: p. 2. Based on the full report, *Staff Charity Fund Review & Stakeholder Accountability Report* Allied Dunbar, Swindon.
- 17 See also the British equivalent of this, A. Adams, J. Carruthers, and S. Hamil (1991) *Changing Corporate Culture: a Guide to Social and Environmental Policy and Practice in Britain's Top Companies* Kogan Page, London.
- 18 For example, Ethibel in Belgium, and EthicScan in Canada.
- 19 For a brief description of this movement and related references, see A. MacGillivray and S. Zadek (1995) *Accounting for Change: Indicators for Sustainable Development* New Economics Foundation, London.
- 20 US Department of Commerce (1979) *op cit*: p. 8.
- 21 See, for example, P. Walker (1995) 'Turning Dreams into Concrete Reality', *New Economics* Winter 1995: pp. 5–9; and J. Morris (1995) 'Indicators of Local Sustainability' *Town and Country Planning*, April 1995, Vol. 64 No. 4: pp. 113–119. For a review of some of the historical and contemporary strands of work in this area, see A. MacGillivray and S. Zadek (1995) 'Accounting for Change: Indicators for Sustainable Development' WEF, London.

- 22 K. Davenport (1996) *Corporate Social Auditing* draft of unpublished thesis, Chapter two, p. 26.
  - 23 P. Pruzan and O. Thyssen (1990), 'Conflict and Consensus: Ethics as a Shared Value Horizon for Strategic Planning', *Human Systems Development* 9 1990: pp. 134–152.
  - 24 S. Zadek and P. Raynard (1995), 'Accounting Works: A Comparative Review of Contemporary Approaches to Social and Ethical Accounting', *Accounting Forum*, 19 (2/3) Sept/Dec.
  - 25 For a more extensive description of some of the historical patterns that have been briefly alluded to in this section, see, for example, R. Gray, D. Owen, & K. Maunders (1996) *Accounting and Accountability: Social and Environmental Accounting in a Changing World* Prentice Hall International, Hemel Hempstead.
  - 26 The principle of inclusivity can also be understood as the equivalent of the standard accounting principle of *materiality*. That is, the rights of stakeholders to choose performance indicators associated with their interests – in conjunction with the right of the organization to measure its performance against its own mission statement – is part of what secures information that is not only accurate but relevant or material.  
 There is an interesting connection with Fourth Generation Evaluation here, which suffers from the methodological defect of requiring balanced power conditions from the outset of the evaluation process. See S. Zadek (1995) *Beyond Fourth Generation Evaluation* unpublished paper, New Economics Foundation, London.
  - 27 There have been enormous strides forward in the last decade in developing more participative approaches to dialogue between institutions and their stakeholders. Some of the most interesting work has been in the development field, where participative learning methods have been developed to cope with gross imbalances of power between the dialoguing partners, for example, those that exist between development agencies and village communities in the South. See, for example, J. Pretty, I. Guijt, J. Thompson and I. Scoones (1995) *Participatory Learning and Action: A Trainer's Guide* International Institute for Environment and Development, London.
  - 28 There has been intense activity in the area of social indicator development over the last decade, particularly since the Rio Summit under *Local Agenda 21*. A good review of some of this material is provided by A. MacGillivray and S. Zadek (1995) *Accounting for Change: Indicators for Sustainable Development* New Economics Foundation, London.
  - 29 Note, too, that this may mean it is more realistic and relevant for a large, diversified company to develop different social and ethical accounts for different subunits instead of trying to develop one single accounting, auditing and reporting system for the whole organization.
  - 30 A considerable debt is due to John Elkington and Andrea Spencer-Cooke for their work in benchmarking environmental reports. See in particular United Nations Environmental Programme (1994) *Company Environmental Reporting: A Measure of the Progress of Business & Industry Towards Sustainable Development* Technical Report 24, UNEP, Paris, and UNEP/SustainAbility (1996) *The Benchmark Survey: The Second International Progress Report on Company Environmental Reporting* UNEP, Paris.
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## STAKEHOLDER ENGAGEMENT AND DIALOGUE

*Jeffrey Unerman*

A key point identified by the judges for the 2003 ACCA UK [Sustainability Reporting] Awards was the poor quality of stakeholder identification and involvement in the submitted reports. Beyond this, stakeholder engagement as an overall activity and more specifically