# BUCKING THE BOTTOM LINE: EXPLORING SOCIAL ACCOUNTING AND AUDITING AS A TOOL TO DEVELOP ORGANIZATIONS' SOCIAL RESPONSIBILITY AND ACCOUNTABILITY

by

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## ABSTRACT

Society's strategy for achieving well being is incompatible with long term global development. The consequences of economic growth and expansion are manifested in severe ecological and social crisis. Structural changes are needed throughout society's institutions to shift the dominant concept and pursuit of progress toward a concept of progress that is based on the development of balanced social, ecological and economic well being. This involves changing roles, responsibilities and accountability of many global institutions and organizations including government, corporations and civil society.

Reviews of both dominant theory's (classical theory) and current corporate-led practices' perceptions about corporate social responsibility and accountability elucidate their limitations to motivate or support structural changes, thus prompting the need to explore alternative theories and practices for structural change. Social institution theories and structural change theories are examined as alternatives, as well as alternative practices that build corporate social responsibility. The main objective of the thesis is to explore social accounting as tool for corporations and other organizations to build social responsibility and accountability in society. This objective is explored by studying and analyzing the current practices and theoretical perspectives on social accounting and auditing. Social accounting and auditing principles are applied and further examined by developing a multiple bottom line framework for VanCity Credit Union's Alternative Lending Program.

Social accounting and auditing has limited applicability to large corporations since their profit motive prevents their transparency and accountability. The contribution of social accounting and auditing in society is to increase the accountability of some organizations: it allows some corporations with unique social goals to substantiate their claims for social responsibility. Social accounting and auditing is also key in assessing the performance of organizations in the social economy since their social contributions to society are undermined by mainstream bottom line assessment. The role of civil society in advancing social accounting practices is essential.

It is concluded that social accounting and auditing should be developed in conjuntion with practices that resist negative outcomes of the growing global economy, as well as in co-

ordination with local strategies that strive to develop an economy focused on meeting local needs.

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# CHAPTER I INTRODUCTION

## 1.1 INTRODUCTION

The scholar Karl Polanyi cautioned that "to allow the market mechanism to be the sole director of the fate of human beings and their natural environment...would result in the demolition of society" (1944 as cited in George 1999: 2). Planning theorist John Friedmann also warned that market rationality must be balanced with other types of rational thought because "production and livelihood depend largely on market rationality, but unrestrained profit making destroys the bonds of human reciprocity that lie at the foundation of all social life" (1987: 29).

These scholars' predictions for the destruction of society are becoming increasingly realized. "During the past two centuries, the economy has transformed the character of the planet and especially human life." (Daly and Cobb 1994: 3) Jacobs (1996) argues that the social and ecological costs of economic growth include a growing disparity among humans' quality of life, social and ecological marginalization, and an overall decreasing quality of life. The destruction of the environment in order to fuel economic growth is further evidence of the destructive impacts of economic progress and growth (Harman and Porter 1997: 3, Jacobs 1996: 23, Rowcliffe and Trepanier 1995).

Indeed, the externalization of ecological and social consequences from both business and public policy decisions is proving to be disastrous. Many argue that as fewer and fewer elite interests control decisions that affect society, there is diminishing accountability for these decisions and weakening democracy in society (Ross and Usher 1986, Korten 1995, Dobbin 1998, Morrison 1995). The issues of responsibility and accountability for the intertwined economic, social, and ecological outcomes of these decisions must be addressed.

Contrary to the above picture of declining well being conventional indicators of progress, increasing corporate bottom lines (profits) and increasing Gross Domestic Product (GDP), suggest that conditions are improving. The discordance between indicators of economic progress and indicators of well being challenges fundamental assumptions about our approach to development: first, economic growth does not necessarily result in well being in society; and second, economic indicators are an inappropriate proxy for indicators of well being. To avoid the social and ecological destruction predicted by Polanyi, Friedmann and others, we must address the deficiencies of the current system. Alternative strategies (instead of only economic growth) are needed to develop well being in society and new methods of accounting for progress (besides economic "bottom line" indicators) in society must be developed.

## 1.2 THESIS GOAL AND RESEARCH QUESTIONS

It is necessary examine how the economy and corporations in particular can contribute to well being in society. The role of corporations in society is important both in terms of the contribution to growth and expansion of the economy as well as the social and ecological impacts of their activities. Corporations are increasingly under public pressure to redefine their responsibilities to include social responsibilities and to develop methods of accounting not only to shareholders, but also to society for their responsibilities and performance.

The objective of the thesis is to explore the development of social responsibilities and methods of accounting which facilitate corporations' (as well as other organizations' in the economy) contribution to the development of well being in society. Theories of corporate social responsibility and the concept of economy are explored, and a method for social accounting (defined as consideration of the full and ultimate consequences of economic activity on individuals, households, community and environment) is examined as a way of developing accountability for organizations' performance and impacts.

The main research questions guiding the thesis are:

Related to theory:

1 How are the roles and responsibilities of corporations in society defined according to different theories? What is the mainstream theory that guides current corporate social roles and responsibility, and what are alternative theories of corporate social role and responsibilities that address the shortcomings of mainstream theory?

Related to practice:

2 What are mainstream corporations' strategies for addressing demands to increase their social responsibility and accountability? What other types of strategies can contribute to broad structural changes in society in order to create new corporate social roles, responsibility and accountability?

3 How can the concept of social accounting be applied to strategies for increasing corporate social responsibility and accountability? How has social accounting and auditing been developed and implemented by corporations?

4 What is the method for applying social accounting and auditing principles to an organization? What are the opportunities and limitations of this tool for addressing social responsibility and accountability?

5 Is it possible for social accounting and auditing by corporations to contribute to corporate social responsibility and well being in society? Can various types of organizations in the economy apply social accounting and auditing principles?

## 1.3 METHODS

Two research methods are employed in this thesis: a literature analysis and a case study.

### 1.3.1 Literature Analysis

The analytical literature review consists of two parts: first, a review and analysis of theories on corporate social role and responsibility and accountability; and second, a review and analysis of practices that address demands for corporate social responsibility and accountability.

In the analysis of theory (Chapter 2), the researcher groups the vast array of theoretical ideas about corporate social responsibility and accountability into three types of theories: classical theory, social institution theories and structural change theories. Each type of theory is explored and analyzed in terms of its conceptualization of the economy and society, and corporate social roles and responsibility. The three types of theories are not an attempt to include all theoretical perspectives on corporate social responsibility into three categories. Rather, the categories are a tool for organizing the many perspectives on economy and corporate social responsibility that are encountered in the literature. This broad review of theoretical literature included books and journal articles that represent an array of perspectives on corporate social responsibility including economic theory, business ethics, and community development.

In Chapter 3 several types of practices are explored that address demands for corporate social responsibility and accountability. First, some practices are explored that are undertaken by corporations themselves to address demands for corporate social responsibility and accountability. The research on these practices is based on a review of articles, books and Internet sources. Second, practices aimed at increasing corporate responsibility through broad structural change in society (i.e. not individual corporate practices) are explored through a body of literature that is spread across several fields including political critique and community development. Third, social accounting and auditing is reviewed; the concept's multiple motivations and applications are explored by reviewing literature in the field of business ethics and the 'new economy', and by researching publications and articles written by organizations that are involved in developing social auditing and alternative indicators of progress. Also in Chapter 3, the development of the social accounting and auditing tool is examined. A particular method for social accounting and auditing that has been developed the New Economics Foundation (NEF); is considered in more detail by reviewing literature by NEF.

### 1.3.2 Case Study

A case study is undertaken to develop a multiple bottom line framework--based on alternative measures of progress—for assessing the progress and performance of VanCity Credit Union's Alternative Lending Program, in order to learn about the practical application of social accounting and auditing concepts. The Alternative Lending Program was selected for the case study because of VanCity's interest and leadership in the field of corporate social responsibility and accountability, which is demonstrated by the credit union's public release of an externally verified social audit report for 1997 (VanCity 1998). The Alternative Lending Program staff had also identified a need to develop alternative measures of progress and performance. VanCity permitted the researcher permission to conduct research for this independent study; however, the views expressed in the case study are those of the researcher, not VanCity. An agreement between the researcher and VanCity was signed to ensure confidentiality of information about clients. The research for this study was conducted between February and September 1998.

The case study was selected as a feasible approach to qualitative research; it facilitates an opportunity to apply social accounting and auditing principles and analyze the implications of social accounting and auditing for organizations with social goals. The case study presents an opportunity to analyze the complex process of social accounting and auditing. The conclusions drawn from the experience of social accounting and auditing for the VanCity Alternative

Lending Program are not necessarily transferable to other organizations, especially profit motivated corporations with different motives for undertaking social accounting and auditing.

NEF's method for social accounting and auditing was applied in the case study. The researcher's understanding of NEF's method was gained by reviewing its rationale, its process, and case studies on its application by several organizations. Further understanding was gained by participating in a basic training session on social accounting and auditing that was led by Simon Zadek, Director of NEF (Vancouver, February 1998). The session was especially applicable to this case study because it focused on applying social accounting and auditing practices to organizations with social goals, such as the Alternative Lending Program.

Since the case study explores the application of social accounting and auditing to the Alternative Lending Program to develop a multiple bottom line framework, the methods employed in the case study are guided by social accounting methods. A key underlying principle of social accounting and auditing method is the inclusion of multiple perspectives to develop and assess progress and performance; this is achieved by gathering stakeholders' views through the social accounting and auditing method. The method also involves defining and gathering social indicators of the Alternative Lending Program's progress and performance.

The researcher's method for developing the multiple bottom line framework for the Alternative Lending Program is outlined in a five-step process, which is discussed in detail in the case study. To complete the five-step process for developing the multiple bottom line framework, three research methods were employed: participant observation, interviews, and review of documents. The research methods involved in each of the five steps are further explained in the case study. The research methods undertaken in one of the main steps (Step 3) of the five-step process for developing a multiple bottom line are outlined below to illustrate the use of research methods. The objective of Step 3 is to identify the four key stakeholder groups' objectives and issues with the Alternative Lending Program, and the three research methods employed were as follows:

1 **Semi-structured interviews** with individuals from three of the four key stakeholder groups, in order to understand their objectives and issues related to the Alternative Lending Program. Interviewees were selected by the researcher and interviewed in August and

September 1998. The selection of interviewees was based on recommendation from VanCity staff and the individuals' willingness to be interviewed. Interviewees were three Alternative Lending Program staff, six VanCity branch staff, and four program partners. No program clients were interviewed. The issues and objectives of clients were scoped by participant observation at a client networking session and a review of documents.

2 **Review of documents** pertaining to the Alternative Lending Program included reports, records and literature about the Alternative Lending Program provided by Alternative Lending Program staff; records, policies and publications for the Alternative Lending Program provided by stakeholders; and literature about assessment of outcomes by some micro-credit programs in North America. In addition, literature on the social accounting and auditing method and principles, particularly by NEF, guided the study. (The review of documents was carried out between February and September 1998).

3 **Participant observation** at a networking meeting attended by 12 clients from the Alternative Lending Program (to understand clients' issues and objectives) (March 1998); a training workshop for VanCity branch lenders on the Alternative Lending Program (to understand branch staff's issues and objectives) (March 1998); and a training workshop on the concepts and processes of social auditing which was instructed by the Director of Research of the New Economics Foundation (NEF) (the external auditor for the VanCity 1997 social audit) that was attended by participants from non-profit and social organizations in Greater Vancouver (February 1998).

Some advantages of gathering information through participant observation are that the information is not filtered through perceptions and biases except those of the researcher, and interplay among people can be observed. However, the researcher potentially influences what occurs during observation. Interviews with stakeholders and networking sessions allowed the researcher to collect undocumented information. Although common perspectives on issues were identified by individuals of common stakeholder group, this sample of views and perceptions of individuals does not necessarily characterise the perceptions of the entire stakeholder group. The researcher's values and assumptions also unavoidably bias the selection of interviewees, the questions asked of interviewees, and the interpretation of results; however, the triangulation of research methods helps to overcome this by including a breadth of sources and perspectives for research.

## 1.4 STRUCTURE OF THE THESIS

Chapter 2 reviews and analyzes literature pertaining to the concepts of corporate social responsibility and economy. Classical theory's ideas about social responsibility of corporations are reviewed and critiqued. Alternative types of theories on the social role and responsibility of corporations are outlined, namely social institution theories and structural change theories.

Chapter 3 reviews and analyzed practices related to corporate social responsibility and accountability. Corporations' mainstream practices that account for social responsibilities are briefly discussed. Some alternative strategies that more broadly address organizational responsibilities in society are also discussed. In this chapter social accounting and auditing is also explored as an alternative measurement tool to facilitate corporations' accountability for social responsibilities. The organizations and issues involved in the social auditing movement are discussed, and an outline of a potential social accounting and auditing method is presented.

Chapter 4 is a case study on the application of an alternative assessment of progress: the researcher develops a multiple bottom line framework for VanCity Credit Union's Alternative Lending Program (micro-credit program) by applying social accounting and auditing principles and method. The researcher's method for developing the framework is reported in the study. The multiple bottom line is a means of measuring the program's progress and performance according to its own objectives as well as the objectives of the program's stakeholders. The opportunities and implications for implementing social accounting and auditing principles and methods by organizations with social goals (as opposed to profit motivated corporations) such as the Alternative Lending program are discussed.

Chapter 5 concludes the thesis by discussing what has been learned in the review of theories (Chapter 2) and practices (Chapter 3) related to corporate social responsibility and accountability, and in the practical study of developing alternative measures of progress and performance (Chapter 4). The future challenges, opportunities and implications for further development and implementation of alternative measures of progress are examined. Complementary tools and additional strategies are discussed for developing social responsibility and accountability in society. Avenues for further research and practice are recommended in the fields of corporate social responsibility and alternative measurement.

## 1.5 SCOPE AND LIMITATIONS OF THE THESIS

The magnitude of issues involved in the field of corporate social responsibility and accountability calls for an international agenda. The thesis conveys an appreciation for the socio-political complexity of such structural changes from both theoretical and practical perspectives. However, the focus of the thesis does not address in detail the international agenda for corporate social responsibility.

The impact of corporate activities, foreign investment and ethics (e.g. environmental regulations and labour standards) is notable in the developing world. These important international development and human rights issues are acknowledged by the researcher; however, they are not specifically addressed in the scope of this thesis.

The thesis also does not address the varied challenges of corporate social responsibility and accountability for industries with diverse ecological and social impacts.[1] The exploration of theory and practices deals more generally with corporations and organizations in the social economy.

[1] Refer to the North-South Institute's recent publication, *Canadian Development Report 1998*, which explores corporate social responsibility in the context of several industries in Canada, including financial services, manufacturing and mining, infrastructure and engineering, and management consulting.

# CHAPTER II REVIEW OF THEORIES PERTAINING TO CORPORATE SOCIAL RESPONSIBILITY

## 2.1 INTRODUCTION

This chapter reviews the roles and responsibilities of corporations in society according to different types of normative theories. There is little agreement among theorists on a precise definition of corporate social responsibility (Carroll 1992, Klonoski 1991); however, in broad terms it can be defined as the extent to which the economic, social, and ecological impact and outcome of corporate activities are consistent with norms, expectations and values in society (MacDonald 1994: 6). Since norms, expectations and values in society are constantly changing and differently perceived by those with various interests and beliefs, corporate responsibilities in society are perpetually ambiguous. Figure 1 is a broad sketch of the corporate social responsibility concept, as it is perceived by each of the three types of theories explored in this chapter. Moving from left to right in this figure, corporate social responsibility theories become increasingly radical in relation to the status quo roles and responsibilities of corporations that are currently practised.

In this chapter, **classical theory**'s focus on the roles and responsibilities of corporations in society is first explored. The theory is critiqued with regard to both theoretical shortcomings, and the implementation of its principles in society. Second, **social institution theories** are explored. These theories recognize the relationships and dependence of corporations and other organizations within society and the environment; they challenge classical theorists by arguing that corporations should be responsible for the impact of their activities and outcomes to multiple stakeholders in society. Third, **structural change theories** argue that corporate responsibilities and accountability in society must be redefined according to an alternative concept of economy that defines progress in ecological, economic and social terms.

Assumptions and values about society determine the way in which each of the three theories defines roles and responsibilities of organizations in society. Classical theory and its principles are dominant in society. However, this review of literature identifies shortcomings of classical theorists' assumptions about the social benefits of economic growth (among other false assumptions). Two alternative theories are explored which integrate social, ecological and economic considerations of society's progress.

**Figure 1 Spectrum of Corporate Social Responsibility Theories**

| Classical Theory | Social Institution Theories | | Structural Change Theories |
|---|---|---|---|
| | Stakeholder Theories | Social Contract Theories | |
| The organization adapts to the requirements of its social environment by adhering to laws. The organization's accountability to shareholders, and its goals to maximize profits and growth drive the organization to maximize its financial bottom line. | The organization negotiates directly with stakeholders and interest groups to manage their interests. The organization changes and develops its policies to satisfy stakeholders and agreed objectives. The organization's progress is measured by the financial bottom line. | The organization is committed to legitimizing its actions in relation to societal concerns. It wants to have a reputation as a good and progressive company in order to remain successful and accepted by society. The organization yields short-term economic profit to address stakeholders' concerns. | Societal concerns are accepted as concerns of the organization, thus it will actively collaborate with others in the community to solve these concerns and develop new strategies to enhance economic, ecological and social well being. Roles of other organizations in society, including government, are also relevant to this organization's operation. |

## 2.2 CLASSICAL THEORY

Classical theory is based on ethical egoism: individuals naturally pursue their own perceived best interests (Bowie 1991, Zadek 1994). The theory draws support from utilitarian arguments such as Adam Smith's concept of the invisible hand; it is said to guide competitive individuals toward socially beneficial behaviour and mitigate the adverse affects of self interest, resulting in the highest possible level of collective welfare in society (Johnston 1997). Classical theorist Hayek argued that when individuals and organizations in society are free from any moral responsibility, a social order that is superior to government-led pursuit of social welfare results. In the state of 'catallaxy', as Hayek called it, pure competition ensures long-term efficiency and profitability and the benefits of profits and economic growth 'trickle down' through society (as cited in Klonoski 1991).

Since the principles of classical theory are accepted by the mainstream of Canadian society, the government and public sector play a supporting role to the market. The government is supposed to look out for the public good but it is the efficiency of the market that ensures the distribution of wealth (George 1999). Classical theory makes several assumptions about the benefits of economic growth and profit. Some of these are:

- Economic growth increases the quality of life and progress in society, thus more income is beneficial to individuals because it enables them to consume goods;
- Maximum benefits of growth (optimal allocation of resources) are tied to the unfettered operation of the free market; and
- Economic globalization enhances the efficiency of the market economy by allowing free flow of goods and money, and ensuring perfect competition and maximum benefits from growth (Jacobs 1996, Harman and Porter 1997).

Corporate social responsibility practices that extend beyond legal compliance are purported by classical theorists to be 'dangerous' to society; it is argued that deliberation over moral issues by corporations may "cut sales, promote moral arrogance, and breed inefficiency" (Donaldson 1982: 59). Corporations' interest in maximizing profit motivates them to compete in the market and to constantly improve the products they wish to sell (Donaldson 1982). Milton Friedman, who is a renowned classical economist and student of Hayek, argues that corporations can contribute the greatest extent of social and moral responsibility in society by focusing on profits. That is, disinterest in social responsibility is the most moral policy (Donaldson 1982: 60). In the words of Friedman (1962):

> [The corporate social responsibility concept] shows a fundamental misconception of the character and nature of a free economy. In such an economy, 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. (as cited in Hoffman and Moore 1990: 133).

It is expected that corporations' contributions to society be based on their expertise: maximizing profits. Klonoski writes, "The fully private and basically economic character of business...insulates business institutions from social responsibility." (1991: 10) Individuals managing corporations are not democratically elected officials; therefore, they are neither obligated nor qualified to mitigate the potentially negative impacts of their activities. Social issues are the responsibility of the government since it is hired to act in the public interest (Klonoski 1991).

According to classical theorists, shareholders are the only stakeholders in society to whom corporations must be accountable. Demands for managers to be accountable to members of society besides shareholders for corporate activities (i.e. other stakeholders such as their employees, community, and customers) detract from corporations' primary obligations to shareholders (Bowie 1991, Hoffman and Moore 1990: 130). Shareholders, as individual members of society, have the right to demand an agenda of profit maximization based on their private investment in an organization (Klonoski 1991).

Fieser (1996), a contemporary classical theorist, maintains that expecting social obligations from corporations would extend beyond the current requirement for corporations to obey the law and maximize profits for shareholders (1996: 457). Therefore, he argues, corporate social responsibility should not be expected from businesses; if anything, corporate social responsibility is "part of a pre-legislative or pre-regulatory dialogue" (457). In a recent article in the *Globe and Mail,* Fieser's comrade, Westaway (1997: B2) claims "Companies ought to act in their own self-interest, not become vehicles for promoting social agendas. Companies don't have social responsibilities, or morals, or ethics; they are inanimate objects. Since they are inanimate, they are amoral".

The pursuit of profit has been deemed a diligent and virtuous pursuit since the Protestant Reformation in the sixteenth century. In the capitalist system profits are assumed to result from "satisfying the material needs of others, and fulfilling [their] expectations" (Bradshaw and Vogel 1991: 55). Thus a positive correlation is assumed to exist between the amount of a business' profits and its benefits to society. Classical theory has been reinforced as the predominant model for decision making in society; it is the foundation of the capitalist system respected by most politicians, policy and law makers, and businesses in industrialized countries over at least two centuries (Jacobs 1996, Lodge as cited in Hoffman and Moore 1990: 128, Brummer 1991).

### 2.2.1 Critique of Classical Theory

George (1999) explains that neoliberalism (i.e. practices synonymous with classical theory' s principles) has become like a global 'religion'; this theory is believed to describe an inevitable condition of society. However, George (1999) argues that it is possible to challenge and replace this theory and practices with theories and policies that restore community power and democratic states. "Business and the market have their place but this place cannot occupy the entire sphere of existence." (George 1999: 9)

The building blocks of society are challenged by a lack of confidence in classical theory's principles. For example, the suggestion that a 'socially responsible' company is disadvantaged in the marketplace challenges classical theory's notion of corporate social responsibility (Bradshaw and Vogel 1991: 54). The theoretical assumptions upon which classical theory is built, i.e. the social benefits of growth and profit maximization, can be critiqued. For example, the theoretical definition of 'well being' is narrowly reliant on the maximization of economic growth and wealth without considering social and ecological elements of well being nor distribution of the wealth created. In addition, the theory counts on perfect distribution of information and perfect competition in the market (George 1999). In a fundamental sense, "there is no basic reason to assume that economic logic will lead to good social decisions, let alone decisions that will be sound in a whole system sense" (Harman and Porter 1997: 40).

Public policy and corporate goals are short term oriented; they are at odds with long-term global development goals that are essential for preserving ecology and society. The pursuit of profit is perceived as an end goal, rather than as a means of developing an end goal of social equality and well being (Harman and Porter 1997: 6, Hargrove 1996).

In part due to privatization, wealth has become concentrated within the richest twenty percent of people in global society who reap private benefits by investing their wealth on international markets (George 1999). In contrast, if this wealth were instead distributed among the poorest eighty percent of people in society it would be used for consumption in local and national economies, thereby meeting needs and increasing well being (George 1999: 7). Also, the poor are becoming poorer: in 1990, the poorest twenty per cent of people in the world were twice as poor as the poorest twenty percent of people were in 1960 (Hawken 1993). This growing wealth gap indicates that the expansion of transnational corporations (TNCs) and freer trade policies developed during this period, which have been said to increase the 'benefits' of growth, have been unsuccessful in doing so. According to Hawken, a key lesson to be learned is "You cannot grow out of a problem if it is imbedded in the thing that is growing" (Hawken 1993: 208). This means that the problem of wealth disparity is imbedded in the current economic system; therefore, the economic growth will not solve this problem.

Increasing impacts of corporations are strongly associated with their increasing scale and influence in society. Corporations are "autonomous entities capable of their own goals and decisions" (Hoffman and Moore 1990: 129); they are not controlled by society's interests. Employees and shareholders have little involvement and decision making power in a typical corporation; this depersonalization decreases their sense of accountability for corporate activities and decreases the corporation's public accountability. Individuals' values are subordinate or irrelevant to macro-level economic values and pursuit of profit (Harman and Porter 1997: 4).

The impetus for changing current mainstream practices and theory comes from many sources. The media have raised public awareness and concern about corporate activities by covering incidents of corporate scandal and fraud, illegitimate and invasive marketing tools, and misconduct. Other problems that are increasingly attributed to corporate activities include pollution, unemployment, gender inequality and social injustice (Johnston 1997: 4). Over the past few decades, society has been raising expectations that businesses be transparent about their policies and activities and take a role in leading social change (Brooks 1997a; Hawken 1993).

Classical theory's assumptions are challenged by alternative theories on the basis that they are too narrowly focused; they do not acknowledge the social and ecological dimensions of market activities (Klonoski 1991: 17, Hoffman and Moore 1990). Many contemporary theorists and practitioners from the field of business ethics and other disciplines challenge classical theory by considering corporate activities and reflecting on their responsibilities within a social and ecological context (Klonoski 1991, Estes 1996, Hawken 1993). Two alternatives to classical theory are subsequently explored in this chapter.

## 2.3 SOCIAL INSTITUTION THEORIES

Social institution theories have emerged from the field of business ethics (Argandona 1998). These theories fundamentally accept the notion (from classical theory) that economic growth and profits result in improved well being in society. However, these theories define a broader scope of social responsibility and accountability for corporations. Two types of social institution theories are explored: stakeholder theories and social contract theories. Stakeholder theories focus on the grounds for corporations' accountability to various constituents in society (beyond their financial accountability to shareholders that is argued in classical theory). Social contract theories explore the grounds for corporations to meet evolving and broad demands of society. Some social institution theorists argue that corporations must keep up with society's inferred standards for corporate practice, while others argue that corporations should proactively work on improving the public good (Brummer 1991).

### 2.3.1 Stakeholder Theories

According to stakeholder theorists, corporations should be accountable to their stakeholders, who can be defined as individuals or groups that are affected or have contact with corporate activities (Brummer 1991). However, stakeholder theories vary significantly (and some are unclear) according to their determination of how stakeholders should be identified, how corporations should be accountable, for what impacts they should be accountable (Kelly et al.1997).

In practice, corporations define corporate responsibilities that extend beyond legal requirements on an ad-hoc basis, sometimes in co-operation with their stakeholders (Gray, Owen and Adams 1996). The most common way of identifying stakeholders is to determine which stakeholders have an interest in the corporation, and which stakeholders' demands the firm is most interested in satisfying. Parkinson (1997), a stakeholder theorist, argues that stakeholder accountability is simply a strategy for long-term profitability. "In order to benefit the shareholders in the long term companies will need to cultivate positive relations with their employees, customers, suppliers and others" (143); sometimes the impacts of these relations may cause a loss in short-term profits. Argandona's (1998) version of stakeholder theory is based on a concept of the common good; any organization must identify its rights and duties that emanate from the collective definition and pursuit of the common good. However, any approaches to defining stakeholders could be construed as ambiguous because a strong moral basis for corporations' responsibility to account to stakeholders for their performance does not exist (despite the fact that it may seem prudent to some) (Argandona 1998).

Stakeholder theories range from those arguing that a corporation should be accountable to a narrow group of stakeholders (these are most similar to classical theory), to those advocating corporate accountability to a wider group of stakeholders that are abstractly involved or affected by the corporation's activities. These differences in stakeholder theories stem from discrepancies in criteria, or lack thereof, that are used to identify corporate stakeholders. Conservative stakeholder theorists make the case that only groups with direct risk or financial interest in a corporation, including shareholders, employees, customers, and (to some extent) communities, should be considered stakeholders (Clarks 1996). Despite their differences, most stakeholder theorists agree that the following key groups are stakeholders of corporations by virtue of their investments:

- Employees invest education, skills, experience, time, energy and health in corporations. They are at financial, psychological and physical risk through their relationship with the employer. Respectful treatment of employees by corporations is known to increase their productivity (Clarks 1996).
- Customers invest money, trust, and potentially much more in the case of defective products.
- Communities invest their infrastructure, their labour force and social capital. Communities can pay high economic and social costs for their vulnerability to corporations' operation, e.g. unemployment and pollution (Estes 1997: 113-114).

Other stakeholder theorists argue that corporations should be obligated to contribute more broadly to the public good, thus including public interest groups and suppliers as stakeholders (Klonoski 1991, Estes 1997: 113, Gray et al. 1996: 45). Public pressure is mounting on corporations (as well as other organizations, including government) to define social responsibilities and be accountable to more abstractly defined stakeholders that are affected by long-term outcomes: the environment and future generations (Estes 1997). However, advocates of 'strong' sustainability (e.g. Rees and Wackernagel 1994) would argue that the environment should not be represented as a stakeholder, but instead as a determining factor in the ability of a corporation and society to operate, since economic and social activity is constrained by ecological limits.

Despite theoretical reasoning for the definition of stakeholders, or the moral obligation to account to stakeholders, in practice corporations define stakeholders based on enlightened self-interest (Gray et al. 1996: 46, Cragg 1996: 18). Corporations are motivated to protect their reputation because "stakeholders can be much more powerful than you give them credit for. Don't be arrogant and believe that the might and power of corporate muscle can overcome the guerrilla tactics of activists or non-governmental organizations" (Peters of Price Waterhouse Coopers, as cited in Schachter 1999). Based on this rationale, it would seem that the "squeaky wheels" that threaten corporations' reputation are the stakeholder groups that should be consulted and appeased.

Because there is no consensus about which stakeholders' concerns, if any, the corporation is obligated to act upon. It is also unclear in stakeholder theories how corporations should demonstrate their accountability to stakeholders, and the process they should undertake to render them accountable. Some stakeholder theorists propose that accountability to stakeholders should be implemented through systems of corporate governance. For example, an additional tier to the conventional board structure could be added, comprised of informed representatives of stakeholder groups who would be responsible for monitoring and guiding corporate activities. While this arrangement may ensure responsiveness to represented stakeholders, it certainly does not dramatically shift the balance of power in society (Kelly et al. 1997: 252). Other stakeholder theorists have argued that the principles of stakeholder theories could be implemented through the adoption of codes for corporate social responsibility (and financial incentives to adopt codes) in order to motivate self-regulation (Kelly et al. 1997). However, the obligations and responsibilities between stakeholders and corporations remain fuzzy in most cases. It is unclear whether 'stakeholder status' implies a right to consultation, access to information, and/or participation in decision making.

### 2.3.1.2 Critique of Stakeholder Theories by Classical Theorists and Structural Change Theorists

Classical theorists argue that businesses must maximize profits and accountability to shareholders as a precondition to addressing other stakeholders' needs. Matthew Barrett, the Chair and Chief Executive Officer of the Bank of Montreal, supports the classical theory's critique of stakeholder theories. He argues that a corporation's priorities for accountability should be on shareholders, not stakeholders: "a public corporation's first and most fundamental responsibility is to create wealth for its shareholders. A commercial enterprise that makes profits for its owners ultimately serves [its stakeholders]" (Barrett 1996: 3).

Most corporations similarly embrace classical theory's principles. However, some feign stakeholder social accountability to prevent a damaged reputation from disgruntled stakeholders. In reality, such organizations account only to their shareholders by means of the bottom line. Illustrating this position, Clarks (1996) writes:

> Stakeholder theory should not be used to weave a basket big enough to hold the world's misery. . . . The responsibilities of a corporation can...be defined as the conversion of the multiple stakes entrusted to it into wealth and value for its stakeholders and thereby for society, without externalizing costs by exposing people or the environment involuntarily to harm or damage. In such a context, the creation of wealth can serve a moral purpose. (1996: 10)

Structural change theorists argue that stakeholder theories are not convincing enough to influence and change the status quo practices of corporate accountability and responsibility in society that have been influenced by classical theory's ideas. One critic's opinion is that the concept of stakeholding "smacks too much of management-speak. . . and lacks the dynamic edge of citizenship and social inclusion" (Lister 1997: 99). Since stakeholder theories do not fundamentally challenge the current socio-economic system's narrow economic focus, they cannot adequately address basic issues of corporate social responsibility. Illustrating this view, an anti-corporate activist from the nineteenth century, Henry Demarest Lloyd, argued that corporations have been legally permitted to concentrate on profit maximization. Therefore, by asking corporations to "add on" social responsibilities, "we are asking them not to be what we have made them to be. We have put power into their hands and ask them not to use it as power." (as cited in Dobbin 1998: 292)

The corporate practice of 'accounting to stakeholders' should not be equated with 'adoption of stakeholders' goals'. At best, stakeholder accountability results in agreement on fair standards, not on making open-ended commitments to maximize the welfare of stakeholder groups (Parkinson 1997). In fact, some structural change theorists argue that repairing and updating norms for corporations' accountability to stakeholders, as proposed in stakeholder theories, is an ineffective and impractical way to increase their accountability. In practice, corporations control the selection of stakeholders with whom they wish to communicate, the tone and method of communication, and the issues to be discussed (Gray et al. 1996).

Other problems in implementing stakeholder theories include the practical difficulties of weighing different and potentially conflicting interests of stakeholders (Culpepper 1998) and accounting to abstract stakeholders such as future generations and the environment. In addition, specific corporate responsibilities are not necessarily determined or fulfilled through stakeholder communication. Parkinson (1997) argues that the concept of accountability is blurry when applied to responsibility; therefore corporations can "wiggle out" of increasing responsibility to stakeholder groups because there is no way to resolve different groups' conflicting or abstract interests. Therefore, communication with stakeholders must not in itself be misunderstood as a productive contribution toward corporate social responsibility (Enderle and Tavis 1998).

Structural change theorists also argue that in practice, stakeholder theories do not likely include the views of all stakeholders who are impacted by corporate activities, especially those in society that are usually excluded and marginalized from decision making; therefore, stakeholder accountability cannot justifiably be seen as a means of strengthening democracy. For example, stakeholder theories have little to say about industrial processes and poverty in the developing world (Kelly et al. 1997). In addition, the disclosure of information can have limited impacts for democracy, especially if people cannot use this information in a forum where their voice is heard (Parkinson 1997).

### 2.3.2 Social Contract Theories

Social contract theories, like stakeholder theories, focus on the legitimacy corporations as social institutions. They are based on the principle that corporations are granted privileges to exist in society through evolving social contracts (Klonoski 1991: 12). To maintain their right to exist in society, corporations must cater to evolving social demands. Illustrating this point, the sociological *Iron Law of Responsibility* purports that organizations' power is maintained through its social accountability. Therefore, organizations neglecting social accountability and public demands should eventually be stripped of their power in society (Brummer 1991: 171).

Historically, the social contract between business and society was formalized by granting local public charters to businesses; incorporation was only granted to corporations with a purpose deemed by public authorities to serve the general public's best interest (Mander 1996). The negative social impacts of economic growth in society were eventually accepted as trade-offs for the benefits of rising profits and economic growth, and local accountability disintegrated as a result (Brummer 1991, Nader, Green and Seligman 1976).

The concept of the corporation was developed for the purpose of political colonization, thus the corporate structure features limited liability for financial investors and strategic planning based on short-term plans. For example, cash flow investment is limited to twenty years and investment decisions are based on the receipt of returns within ten years. However, investments also reap surplus profits beyond ten years. As a result, corporations accumulate significant wealth and own a large percentage of the economy's productive assets (Turnbull 1989). Consequently, smaller businesses are disadvantaged in the economic system; for example, they are likely to present to lenders a higher risk than corporations. Some social contract theorists argue that the current social contract with corporations is long outdated: new rules for corporate ownership are needed that ensure the social and ecological legitimacy of corporations in society (Turnbull 1989: 15).

Social contract theorists argue that current pressures for corporate social responsibility are pointing in the direction of a new social contract in which corporations more explicitly acknowledge the social and ecological context of the economy. Contributing to the formation of this social contract, various stakeholder groups have been active in advancing social and ecological interests through lobbies, demonstrations and coalitions to influence the development of corporations' social accountability (Shepard, Betz and O'Connell 1997, Estes 1997).

#### 2.3.2.1 Critique of Social Contract Theories

Structural change theorists argue that a new social contract cannot be implemented in society unless the political climate shifts from its current support for business interests toward a broader democratic stance in which decisions also include economic and social considerations (Clarke 1997, Dobbin 1998). Classical theorists, on the other hand, would argue that abstract social contracts do not exist: the law is the only formal "social contract" (Fieser 1996).

## 2.4 STRUCTURAL CHANGE THEORIES

Classical theory's concept of the economy is meant to model Aristotle's definition called "oikonomia", which means management of the "household" (i.e. society). This concept of the economy is based on the assumption that economic activities will increase well being by increasing value to members of the household over the long-term. Daly and Cobb (1994) argue that society long ago strayed from the original intent of the capitalist economy and it has shifted to chrematistics, a socially and ecologically destructive economic system that manipulates property and wealth to maximize short-term exchange value to the benefit of individual owners (Daly and Cobb 1994). Companies are free to move their money and goods without restraint. Mergers, acquisitions and strategic alliances manage competition between companies. As opportunities increase for businesses to move around the globe and accumulate wealth, opportunities decrease for society as a whole to benefit from corporate activities (e.g. unstable employment, declining working conditions and wages) (Jacobs 1996, Daly and Cobb 1994, Dobbin 1998, Clarke 1997).

Structural change theorists argue that the economy must revert to oikonomia in order to fulfil the original goal of the economy: increasing well being within the social and ecological commons. Thus structural change theorists deem major changes in the structure and concept of the economy necessary.

In the past, low expectations were placed on business ethics in society, while the rest of society's institutions were assumed to have greater integrity (Etzioni 1988). However, many structural change theorists (Dobbin 1998, Clarke 1997, Cragg 1998) argue that politics and civil society are becoming infused with corporate interests and ethics as they work more closely and are overpowered by the corporate interests and goals. Dobbin argues that the government has also adopted market principles, and government services aimed at enhancing the well being of the community are nearly indistinguishable from services sold in the marketplace (1998: 286).

Structural change theorists critique the detachment of the mainstream concept of the economy from society and ecology. They argue that developing social responsibility and accountability for corporations is contingent upon redefining the roles and responsibilities of institutions in society including business, government, and civil society (Dobbin 1998). Examples of the schools, movements and/or fields could be considered part of structural change theories are community economic development (CED) (e.g. Ross and Usher 1986), sustainable development (e.g. Daly and Cobb 1994), deep ecology (e.g. Fox 1986), ecological economics (e.g. Costanza 1997) and communitarian theory (e.g. Etzioni 1988). These schools have different priorities and foci; however, in common is their deep-seated critique of classical theory's principles.

The diverse foci and priorities of structural change theories can be illustrated by comparing deep ecology and community economic development theories. The deep ecology movement rejects the anthropocentrism within dominant ideology; rather, humans should be considered one constituency in a biotic community. The dominant ideology of economic growth and the consequent reduction of all values to economic terms are rejected. Deep ecology broadly addresses how to replace the dominant ecological growth ideology with an ideology of ecological sustainability (Fox 1986).

The field of CED focuses on the integration of political, cultural, environmental and other perspectives to plan for the long-term benefit of communities. Inherent in CED is the recognition of uneven development due to global processes and the failure of capitalism to generate community values as a result of economic development (Brown 1997). Pursuit of development from within the community itself is key to CED strategies, as well as the breadth of the economy that includes all sectors and the social economy. Deep ecology and community economic development are not opposing fields; however, the brief descriptions of each have illustrated that their priorities and foci differ significantly.

### 2.4.1 The Whole Economy Concept

Structural change theories critique the narrowness of the conventional concept of economy in a couple of different ways: social and ecological impacts are externalized from decisions and a significant chunk of the economy that does not involve visibly monetary transactions is not conventionally acknowledged and measured. The whole economy concept is advanced by some structural change theorists as a broader concept of the economy; "[It] starts from a perception of economic activity as a human activity, not primarily an exchange of things and money" (Nichols and Dyson 1983: 9). The purpose of the whole economy concept is to "recognize and bring into the mainstream alternative [forms of organizations] which have existed for many years, and to foster the support and legitimacy such forms need with government and the general population" (Brown 1997).

Key to the whole economy concept is the value placed on the "social economy" to support the formal economy and social well being. CED theorists have different ways of explaining or labeling the social economy. Ross and Usher (1986) identify nine sectors of the economy, shown in Figure 2, according to their assessment of progress and performance according to a commercial accounting or social accounting rationale, which correspond respectively with the formal and informal economy classifications.

Each of the components of the whole economy that assesses progress according to a financial accounting rationale is characterized by a visible exchange of money and goods: big business and the public sector, and some small businesses, collectives and co-operatives. Components that assess progress according to a social accounting rationale are socially motivated and their progress is defined by their delivery of a social service: community enterprises, voluntary activity, barter and skills exchange, mutual aid, household activity. In some cases, small business, collectives and co-operatives also have a social accounting rationale.

Although the social economy consists of diverse organizations, there are commonalties in these organizations' diverse features. Organizations in the social economy exist for a social purpose, and if they have commercial goals they are set in the context of social objectives. Some organizations are self-sufficient, others depend on government donation and private donors, and volunteerism is a salient characteristic. Surplus earnings within such organizations are used to strengthen the organization; dividends are not based on shareholding (if distributed at all). A fundamental feature of organizations in the social economy is democratic control; in the case of co-operatives this is based on a one member / one vote principle.

The social economy is undervalued in current economic analyses and indicators. Only some of productivity of the organizations with a social accounting rationale (i.e. organizations in the social economy) is counted in economic output/GDP, while the rest of their productivity is unrecognized in economic evaluation. However, each of the nine sectors of the economy is necessary in order for the whole economy to function. When the formal economy "fails", the social economy is increasingly relied upon by society, though it is rarely acknowledged and supported by policies.

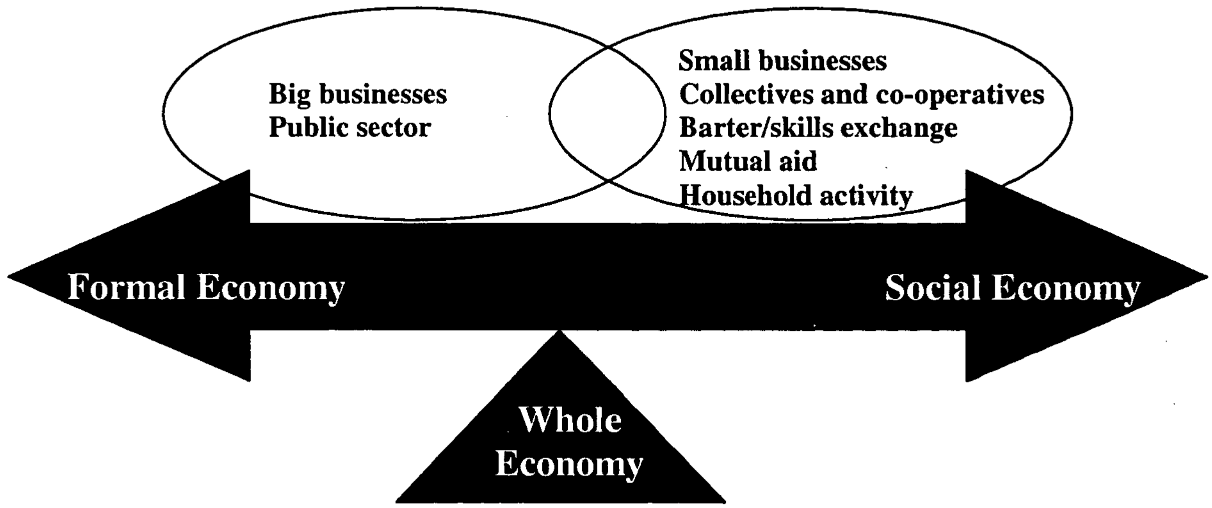
Jack Quarter (1992) estimates that the social economy (roughly synonymous with Ross and Usher's (1986) "informal economy", and the term "third sector") is composed of about 175,000 organizations in the social economy in Canada, accounting for at least 31 percent of the country's national income (Quarter 1992: 169). Currently, the social economy operates in the shadow of the formal economy that is dominated by big business. "Inevitably, if organizations are part of the economy, financial statistics are indicators of their importance. However, as the term "social economy" implies, the social value of an organization stands alongside and indeed precedes its economic importance." (Quarter 1992: x).

A large part of the value of the social economy is that it meets communities' needs (particularly, but not limited to the needs of people with low incomes) that are not met by the private sector (Quarter 1992). According to Quarter (1992) the social economy offers greater potential than the formal economy to increase democracy in society because 'membership' is based on mutual support and benefit from the association, not on proprietary rights. In terms of benefit to community, organizations of the social economy provide services needed by residents, also fostering "geographic allegiance" and loyalty that is missing with the private sector (Quarter 1992: 173). Throughout the thesis, the term "social economy" will be used with the above-discussed connotations in mind.

Some strategies have been implemented to humanize and/or democratize the mainstream corporate structure by adopting features from organizations in the social economy, for example, worker ownership. If social accounting can be developed as an assessment tool of performance and outcomes for organizations with adherence to commercial accounting principles, i.e.

mainstream corporations, it could be a strategy for developing democratic and participatory practices and accountability.

**Figure 2 The Whole Economy**




**Big businesses** strive for commercial profit and growth. Social accounting is only done if it is profitable. Publicly owned corporations must serve some social functions, but are mostly in business for commercial reasons. There is little expectation that businesses pay attention to social issues beyond the financial bottom line.

**Public sector** is based on a social accounting rationale. However, decision making is strongly influenced by businesses, so its values are close to those of commercial enterprises.

**Small businesses** vary significantly in nature and goals. Depending on size and structure they are guided exclusively by profit, or by social accounting in addition to profit maximization.

**Collectives and co-operatives** have a strong social purpose, but in some cases the element of social accounting that was at one time central to the organization, has been minimized.

**Community Enterprises** exist for social reasons and the community's benefit; they are carried out by a social accounting rationale.

**Voluntary Activity** encompasses aids and charities; commercial profit does not generally motivate this type of activity.

**Barter/skills exchange** amongst neighbours is guided by both commercial and social objectives. However, commercial barter between firms and states has an interest in commercial profit.

**Mutual aid** exists in small and intentionally co-operative communities. The social relationships are of preliminary importance.

**Household activity** is guided by social accounting; decisions are guided by human consequences.

(source: Ross and Usher 1986)

### 2.4.2 Social Indicators

Structural change theorists define one of the principle problems in society as the measurement of progress by economic growth and profits, rather than by well being (Henderson 1998, vanGelder 1999). The definition of well being, the strategy for achieving well being, and the measurement of well being could be altered.

Conventional financial accounting is constructed according to classical theory's principles (Gray et al. 1996). Alternative economist Henderson (1998: 218) rhetorically asks, "How can linear balance sheets and economists' categories keep track of communities of stakeholders and a seamless circular process [of the whole economy]?" Social accounts play an important role in transforming the systems of measurement in financial accounting toward accounting for the whole economy. Rather than assuming that social outcomes are incidental to economic activities, social indicators could validate the importance of social outcomes by measuring them in non-monetary terms, and including impacts of economic activities that occur outside the formal economy. For example, the household could be acknowledged as part of the economy (Ross and Usher 1986).

The development of social indicators could provide a more complete picture of progress and performance (as defined in terms of well being) than economic indicators. The purpose of social indicators is to collect relevant information about current conditions, and to inform the direction and change of decisions (Ekins 1986). The call for the development of social indicators reflects a broad shift in the concepts of economy and progress away from a financial bottom line and toward a multiple bottom line. That is, rather than assessing progress only in terms of commercial profitability (the commercial accounting rationale), the assessment of progress includes social and ecological impacts of economic activity on individuals, household, community and ecosystem (social accounting rationale).

The use of social indicators could be a strategy toward structural change at national, local and organizational levels. Stakeholders could be involved in defining indicators of progress for the outcomes and issues that are important and relevant to them, rather than relying on a top-down approach to measurement of progress. On an international scale, attempts have been made by some international organizations such as the United Nations Development Program (UNDP) to overhaul national accounts. Also, Daly and Cobb (1994) have developed an 'Index of Sustainable Economic Welfare' (1994) and Henderson has done considerable work in redefining wealth and progress in *Building a Win-Win World* (1998).

Social indicators have been developed and implemented in several communities to monitor progress toward local goals. Community members are meant to be involved in assessing what the indicators mean to them and how they ought to act in response to the information contained in the indicators. For example, the number of salmon swimming upstream in a given year is an indicator of ecological health in Seattle, Washington (Lawrence 1997). In Campbell River, B.C. citizens have been involved in developing indicators of success in achieving the goals of the community's Official Community Plan (Communities Institute 1997). In North America, many of these communities have grouped themselves into a network (Center for Sustainable Communities on Internet: www.weber.u.washington.edu/~common/). Social accounting and auditing has also been practised in Britain at both community and organizational levels. Especially in the 1980s, interest groups, social advocates and community groups in Britain undertook locally based social audits, e.g. community audits to measure progress toward local planning goals (Pearce 1993).

At an organizational level, social accounts can track the total (social, ecological, economic) impacts of organizations on stakeholders (Lawrence 1997: 181). Corporations have developed various systems of accounting for social, economic and ecological progress. For example, some corporations have developed social accounts to assess and report on their performance based on a multiple (social, ecological, economic) bottom line instead of a financial bottom line. Organizations associated with the social economy (collectives, co-operatives, community enterprises, small businesses and non-profit organizations) have an advantageous organizational structure and position in the economy to develop social accounts; social accounts can more adequately assess the outcome of social goals and activities of such organizations than financial accounts. The application of social indicators at an organizational level will be further investigated in the exploration of social accounting and auditing in Chapters 3 and 4.

## 2.5 CONCLUSION

In this chapter's analysis, classical theory, social institution theories and structural change theories have been explored in order to develop an understanding of various perspectives on corporate social responsibility and accountability. Classical theory advocates only economic and legal responsibilities for corporations; the government's role is to regulate issues and concerns of a social nature. The other two theories are responses to increasing pressure for corporations to be more socially accountable for their impacts in society. Social institution theories (developed in the fields of business ethics and organizational management) argue that corporations must acknowledge their social context, and that they are accountable to society in additional ways than those defined in classical theory. Structural change theories address the issues of corporate social responsibility from a broad perspective on the economy. They propose a redefinition of the economy's purpose as working toward a broader concept of progress and well being than economic growth. Thus, structural change theories point out the value of the social economy to build democracy and prop up the formal economy.

In simple terms, each type of theory advances various perspectives about to whom a corporation *should be* accountable in society. Classical theorists argue that a corporation should be accountable only to its owners/shareholders. Social institution theorists argue that a corporation should be accountable to stakeholders. Structural change theorists argue that a corporation should ideally be accountable for its ultimate consequences on individuals, households communities and the environment.

Each of the three theories has implications for the way that progress is measured. Classical theorists advocate economic and financial measures of progress. Social institution theorists and structural change theorists are wary of the limited view of progress that is provided by economic indicators. Social institution theorists advocate stakeholder accountability as one means of increasing the transparency of the economy in society, but do not specifically advocate new measures of progress. Structural change theorists determine that society's path toward progress must conscientiously balance social, ecological and economic well being, and measure the full consequences of economic activity on individuals, household and community.

In the next chapter mainstream and alternative practices related to corporate social responsibility and accountability are explored. These practices are analyzed in relation to the theories that were discussed in this chapter.

# CHAPTER III REVIEW OF CORPORATE SOCIAL RESPONSIBILITY AND ACCOUNTABILITY PRACTICES

## 3.1 INTRODUCTION

The previous chapter's review of theoretical literature revealed a divergence of *theory* on corporate social responsibility. This chapter explores *practices* related to corporate social responsibility and accountability. Since classical theories guide mainstream thought about social responsibilities in society, most current practices related to corporate social responsibility and accountability reflect this theory's principles. However, since corporations are increasingly publicly challenged to demonstrate social and ecological responsibility, many corporations are eager to protect their public reputation. Mainstream corporate responses to demands for social responsibility include practices such as ethical codes, environmental accounting and social and ethical investment. These practices are described and analyzed in this chapter.

Structural change theorists argue that modifications to corporate activities are insufficient on their own to ensure that corporations are socially responsible. Instead, it is argued that the entire economic system and its cultural institutions must be altered by several approaches co-ordinated at multiple levels: from national redefinition of progress through policy and international strategies (trade agreements, etc.) to locally driven initiatives and practices by communities and organizations. Some of these alternative corporate social responsibility and accountability practices are discussed in this chapter.

This chapter also explores the concept and practice of social accounting and auditing, an alternative concept to financial accounting and auditing for measuring and reporting on progress. As discussed at the end of the last chapter, social accounts are being developed by some communities as well as on national and internationals level to measure progress toward social, ecological and economic goals. In this chapter and in the rest of the thesis, the use of social accounts is focused on an organizational level. The development of social accounting and auditing is discussed, its implementation is explored, and its significance in developing corporate social responsibility is considered.

## 3.2 CORPORATE-LED PRACTICES RELATED TO CORPORATE SOCIAL RESPONSIBILITY

Canadians' interest in business ethics is partly attributed to trends associated with globalization (Brooks 1997a, North-South Institute 1998). Throughout the 1990s, dramatic increases in capital flows and dramatic decreases in official flows through development assistance and loans have generated concerns in society about the role and impacts of corporations in developing nations. (Capital flows total eighty per cent of total investment capital from industrial to developing countries.) Several corporations' annual sales exceed many nations' GDP (North-South Institute 1998).[2]

The magnitude of corporations' economic, social and ecological impacts in global society has captured the attention of many citizens and heightened concerns about globalization issues. Such concerns have been expressed through quality of life and health issues for humans; workplace ethics and safety; and pollution control. Corporations have responded to these trends and demands for transparency about their activities in many ways; a few of these responses are explored in this chapter: codes of ethics, social and ethical investment and consumerism and environmental accounting (Owen 1992, Brooks 1997b).

### 3.2.1 Codes of Ethics

The public increasingly expects that corporations will be penalized for irresponsible behaviour. In response, many corporations (sixty per cent of Canada's largest corporations) have created codes of ethics that stipulate expected conduct for employees and the ethical dimensions of corporate policies. In addition, about twenty per cent of Canadian firms employ 'ethics specialists' to act as arbitrators, mediators, and watchdogs (Todd 1998). A code of ethics for Canadian business has been developed by the Human Rights Centre at the University of Ottawa and endorsed by Industry Canada, for voluntary signature by businesses. The code includes a set of beliefs, values and principles on employment, community and environmental practices, human rights, business conduct (relations with suppliers, etc.) and treatment of employees. By signing codes of ethics, signatory organizations agree and they are trusted to comply with the

[2] For example, the 1996 gross revenue of Canada's largest corporation, BCE Inc. exceeded the 1995 Gross Domestic Product (GDP) of many countries including Sri Lanka, Guatemala, Ecuador and Viet Nam (North-South Institute 1998, Clarke 1997).

ethical standards and general value statements (Human Rights Research and Education Centre on Internet: aix1.uottawa.ca).

However, a recent study of Canadian Fortune 500 Corporations reveals that most firms' motivation to sign codes of ethics is to protect themselves from legal complications and boost public relations, rather than to develop social and ethical responsibility. Most of the codes simply affirm the limits of the corporation's responsibilities and are a means of ensuring that its employees act in the defined interests and values of the organization (Archarya 1999).

Several international codes and principles for business ethics have been developed by businesses and they are adopted by businesses on a voluntary basis. For example, the CERES (Coalition for Environmentally Responsible Economies) principles (on Internet: www.ceres.org) and the Caux Principles (on Internet: www.cauxrountable.org) call on businesses worldwide to be agents of positive social change by embracing general principles about ethics and business practice. Another example is Accountability 8000, a universal standard for ethical sourcing that establishes provisions for trade union rights, child labour, work environment and remuneration principles (established by Council on Economic Priorities, an American research institution). Through such international codes, a membership of businesses works together to legitimize their own practices and develop benchmarks for business ethics (Good Neighbour Project on Internet: www.enviroweb.org/gnp/policy.htm).

These international codes and principles could be interpreted as demonstrations of a number of trends. For example, it could be perceived that businesses are working together to develop codes and principles in order to self-regulate and to stave off strict government policies about corporate conduct. Alternatively, it could be perceived that businesses are responding within their mandates to heed public demands for more socially responsible business practice. The corporations involved in developing standards for corporate social responsibility may profit from their reputation as leaders in this field, especially if codes and practices endorsing corporate social and environmental responsibility are eventually required of all corporations by law (Zadek, Pruzan and Evans 1997).

### 3.2.2 Environmental Accounting and Auditing

The purpose of environmental accounting is to internalize the environmental and social costs that are generally externalized through conventional accounting practices (Geddes 1992). Hawken's example of externalized social and environmental costs is a forest product company that clear-cuts an area and leaves it in a degraded state. From this activity, the company receives a profit from the sale of wood, but the environment bears the loss of habitat and biodiversity (1993). Environmental accounting practices have developed in part as a result of businesses' commitments made at the 1992 Earth Summit and in the *Business Charter for Sustainable Development* for environmental responsibility. Environmental accounts generally tabulate the benefits and costs of an organization's environmental impacts and reporting results in a balance sheet style (often monetary value) (Elkington 1996).

However, business practices in environmental accounting can be criticized on the basis that shadow prices that are assigned to 'natural resources' underestimate the intrinsic value of nature (Jacobs 1996). Thus our current economic system has difficulty accommodating the changes that involve concepts such as intrinsic value. In reality, the environment is a determining factor upon which businesses rely for resources. Businesses' intentions for practising and promoting environmental practices are limited by their profit motive to grow and expand. However, deeper forms and movements of environmentalism that acknowledge the substantive ecological limitations to growth (e.g. carrying capacity, species extinction) such as ecological economics[3] and deep ecology[4] outright reject the idea that the economy should continue to grow and expand, thus calling for structural changes to the economy (Hawken 1993).

The implementation of environmental accounting by businesses does not signal a changing business philosophy. For a profit oriented corporation, internalizing 'environmental costs' (e.g. pollution prevention or mitigation) simply means that these costs are added to a list of other capital expenditures that must be weighed against other priorities of the corporation (Makower 1998). Some industries have declared "clean" manufacturing methods achieve maximum efficiency, thus claiming that the mechanisms for 'greening' business are already in place. However, accounting for full environmental impacts also includes accounting for related environmental and social impacts of the materials used in production and the products that are

[3] The principles of ecological economics are thoroughly addressed in R. Costanza (ed.) *Ecological Economics.*

manufactured. Environmental accounting and green business practices do not capture these costs. Hawken (1993) cites the example of Monsanto's commitment to dramatically reduce its emissions. However, Monsanto has failed to acknowledge the need to eliminate the source of its high social and environmental costs: the production of toxic chemicals and herbicides.

Many problems related to businesses' negative impacts in society are attributed to their externalization of costs. Therefore, the efforts of businesses as well as politicians, activists and consumers are required to make changes to facilitate cost internalization. Hawken proposes that government can help to internalize businesses' costs through "cost/price integration" by Pigovian taxes (Hawken 1993: 82). This mechanism charges polluters for spillover effects and costs to future generations. The idea of Pigovian tax is not to permit businesses to pay for the right to pollute, but to instead encourage the development of more efficient and less polluting designs (Hawken 1993: 83).

### 3.2.3 Socially and Ethically Responsible Investment and Consumerism

Ethics increasingly guide consumers' purchasing and investment decisions. Therefore, corporations are eager to be perceived as ethically responsible by a growing group of ethically concerned consumers and investors. Gravitz (1998) outlines three strategies for social investment from the perspective of investors: integrating social values into their investment decisions by screening stocks in or out of investment portfolios based on the social and ethical performance of a company, investing with the motivation that they will demand management to change practices and policies through shareholder activism, and invest in certain types of businesses and organizations to invest in the local community. Examples of "socially responsible" investment funds are those sold by the Calvert Social Investment Fund (on Internet: www.calvertgroup.com) and Citizens Fund (on Internet: www.citizensfunds.com).

Advocates for social investment argue that "we'll have a healthier, more responsible society if we incorporate a value space into our economic decisions." (Gravitz 1998: 78). Brooks (1997a) argues that social and ethical investing nurtures corporate managers' awareness of expectations for corporate performance. "The world of management is a lot more tuned into stakeholder interests than before ethical investing got started. . . .I'm willing to bet that ethical investing gets

[4] Refer to W. Fox (1986) for an outline of the philosophy of the deep ecology movement.

bigger and ethical investors become more active in corporate affairs" (Brooks 1991: 65). Gravitz (1998) adds that social and ethical investors have a responsibility to monitor companies and influence them to implement changes if corporate practices do not meet their standards.

In connection with the trend of social and ecological investment, an increasing number of organizations are voluntarily undertaking social, ethical and environmental screens and reports of their activities and impacts. The United Church of Canada introduced ethical investment practices in the 1960s; it conducted social audits with corporations to assess the morality of investment according to several criteria, e.g. human rights issues. This early initiative by the United Church significantly raised public awareness of business ethics and led Canadian corporations to develop codes of ethics in subsequent decades (Brooks 1997a, Ellmen 1997).

The Task Force on Churches and Corporate Responsibility (TCCR) has been instrumental in raising issues about social investment in Canada. Several religious groups that collaboratively purchased shares established TCCR in 1975, and then employed shareholder activism to challenge corporations to be more socially responsible. They demanded that corporations take a position and address a range of corporate social policies, including apartheid and environmentalism. Recently TCCR has proposed fundamental changes in corporate accountability and disclosure as well as specific issues such as banking services for poor communities (Brooks 1997a).

Several private consultants in Canada and The Better Business Bureau of British Columbia have published reports on the social performance of individual corporations in Canada, for the purpose of providing information to consumers and investors (on Internet: www.bbb.org). EthicScan is the largest monitoring and research organization in the field of business ethics; its "Organizational Ethics Audits" of Canadian companies assess a number of non-financial aspects of corporate performance and benchmarking them within industries. Topics in EthicScan's assessments include staff morale, community relations and environmental responsibility (EthicScan on Internet: www.ethicscan.on.ca). International management consulting firms are also promoting to businesses the necessity to develop their reputation for corporate social responsibility to insulate them from public critique. For example, a division of corporate responsibility has been developed at KPMG (KPMG on Internet www.kpmg.ca/ethics/).

### 3.2.3.1 Critique of Social and Ethical Investment and Consumerism

Although social investment and consumerism can develop increased transparency of corporate activities to shareholders (and customers, in some cases), these practices do not necessarily advance societal well being. Rather, these practices arguably strengthen the 'power of the purse':

> The poor, far from being favoured, seem to be effectively disenfranchised as the power of the purse comes to represent the quintessential vote in the capitalist world economy. . . . Such strategies, with their emphasis on individual action, arguably underrate and consequently don't square up to the power of vested interests to block change (Pepper 1989 as cited in Owen 1992: 21).

Structural change theorists argue that the concept of corporate social responsibility entails broader changes in corporate behaviour than legal compliance and catering to consumers' choices. Most business principles (guided by market rationality) simply do not relate to the concepts of ecological and social commons. For example, social investment funds try to balance profit and social responsibility. However, the value of funds is measured by traditional financial analysis as a priority, and as a matter of secondary procedure the funds are scanned for social and environmental policies and activities. This illustrates that profit motive prevents these funds from prioritizing social investment (e.g. community health and welfare) over financial accumulation (Lewis and Henkels 1996).

In a few exceptional cases, businesses have internalized social and environmental costs that are normally externalized and borne by society. For example, Ben and Jerry's ice cream (a business with social goals, further discussed later in the chapter) continued to support dairy farmers (its suppliers) by paying a high price for their milk after price supports dropped, and customers rewarded the company for this socially responsible practice (Hawken 1993). However, since business priorities are to maximize profits, the internalization of ecological and social costs is not usually sensible according to market rationality, thus it is not conventionally practised.

### 3.2.4 Research and Dialogue on Corporate Social Responsibility

Most of the research and dialogue on corporate social responsibility theory and practice has been developed within the field of business ethics. Several academic centres for research in business ethics have been formed in Canada since the late 1980s. The Canadian Centre for Ethics and Corporate Policy provides a forum for discussion and advice on ethical issues for business leaders. The Canadian *Journal of Business Ethics* is dedicated to developing an academic discourse on corporate ethics. Recently, a group of Canadian ethics consultants formed the Ethics Practitioners' Association of Canada (EPAC) to promote the development of corporate social responsibility in Canada. There are many organizations of this type in both the United States and Europe, which signal the growing prominence of this field. (Refer to NEF's extensive links to organizations and research institutions in corporate social responsibility, on Internet: www.neweconomics.org.)

Throughout the 1990s expert practitioners and advocates from the field of corporate social responsibility have assembled at several international conferences. British academic and research groups (e.g. Institute of Social and Ethical Accountability (ISEA) and NEF) have initiated some of these conferences that explore how corporations can become 'leaders' in corporate social responsibility through the development of tools such as social accounting and auditing. One of the more recent (October 1998) international conferences on corporate social responsibility was the first in a North American venue; it was held in Vancouver, British Columbia (Standards for the New Millennium on Internet: www.standards2000.bc.ca). The conference, entitled 'Standards for the New Millennium' was on the topic of social and ethical accounting and auditing.

Research and practices in corporate social responsibility that takes place outside the field of business ethics is much more eclectic. Such theorists are not constrained by the tradition of fitting practices into mainstream business rationale and their ideas are more varied. Many the theorists and activists in community development, political activism, and law have proposed broad structural changes to the concept of economy (some of these ideas are discussed later in this chapter). It is necessary to develop co-operation between the practices endorsed by structural change theorists, and mainstream discourse and practices to develop socially responsible practices by corporations on a widespread basis.

### 3.2.5 Business Concerns: is Corporate Social Responsibility Profitable?

Evidence is not firm as to whether ethical business practices increase financial profits (Gray et al. 1996). A number of studies have failed to consistently find a correlation between business ethics and profits (Aupperle et al. 1985, Abbott 1989 as cited in MacDonald 1994). However, some studies claim that a correlation exists between short-term profitability (defined in terms of net income, profit margin, return on equity, earnings per share) and ethical practices (defined in terms of variable criteria) (Lee 1998). The inconsistent results of these studies can be attributed in part to different criteria chosen to describe and measure corporate social responsibility, the indicators selected to show short term 'profitability', and the bias of the researchers (MacDonald 1994: 7).

The 'social dimension' of business is increasingly purported to ensure long-term profitability of businesses. For example, a recent book, *The Stakeholder Strategy* (Svendsen 1998) argues that sixty per cent of a corporation's value is derived from reputation, goodwill, employees' competency and supplier trust. According to Svendsen's claim, investing finances and time in building trusting relationships within the organization and with stakeholders will result in corporate growth that is four times as rapid as that of firms that do not make these investments (1998). Thus, from the point of view of a profit motivated corporation, it makes sense to invest in social relationships.

However, according to structural change theorists, the current economic and political system does not support the pursuits of truly socially responsible corporations. According to Korten, "social responsibility is inefficient in a global free market, and the market will not abide those who do not avail of the opportunities to shed the inefficient." (1995: 237). Dobbin argues that in the case of publicly traded corporations, those that "undermine their profitability by behaving as good corporate citizens would soon find their shareholders demanding a change in management" (1998: 62).

### 3.2.6 Limitations of Mainstream Approaches to Corporate Social Responsibility

The corporate-led approaches that have been discussed (codes of ethics, social and ethical investment and consumerism, and environmental accounting) could enhance corporate accountability to limited stakeholders: shareholders, customers and perhaps employees. Each of these approaches increases transparency about corporate activities, which potentially raises awareness and standards for corporate practices. Corporations' motivation to develop such practices is to preserve their reputation, and ultimately their profits. However, the transparency that results from corporate led practices "is a prerequisite for accountability and must increase the likelihood for change" (Kelly, Kelly and Gamble 1997: 160).

The contribution of such practices to enhancing stakeholder accountability and social responsibility, according to the definitions by structural change theorists, is dubious. On a grand scale, corporations continue to maximize profits by cutting jobs in favour of higher returns on investment, influencing government policy to weaken environmental regulation, and decreasing salaries for employees (Ellmen 1997, Brooks 1997a). These practices indicate that society as a whole is does not pursue socially and ecologically sustainable development because of a consistently strong adherence to market rationality (Epstein 1991).

Most corporate led strategies for corporate social responsibility are anthropocentric; they revolve around human health issues and human stakeholders. Although there has been a considerable amount of work done in the field of ethics (particularly environmental ethics), it has not been well incorporated into many mainstream strategies for corporate social responsibility (Bucholz 1991).

The multitude of business ethics practices with so little overall change in society underscores the need for a supplemental tack to change the status quo (Brooks 1997a). Corporate social responsibility and accountability must also be addressed by approaches that are led by government and civil society instead of practices led by business. Some of these practices are explored in the next section.

## 3.3 ALTERNATIVE PRACTICES FOR DEVELOPING CORPORATE SOCIAL RESPONSIBILITY

The magnitude of changes required to accomplish a structural transformation in the concept of economy cannot be underestimated, thus a combination of strategies must be implemented by various institutions. Even in focusing only on the role of corporations in structural change, many fundamental aspects related to corporate roles and responsibilities in society need to be addressed, including consumption and demand of products, the management of firms, macro level policies pertaining to corporate activities, and the role of local economies.

An increasing number of activists are trying to re-define the roles and responsibilities of corporations. Some activists' strategies are aimed at breaking down the corporate structure, which they believe to be inherently socially irresponsible. Many strategies work from the "bottom-up" to develop alternative types of organizations and practices. A few of these related strategies are examined below: education and boycotts, changes in government practices, strengthening civil society, and developing alternative organizational structures.

### 3.3.1 Education and Boycotts

In *The Myth of the Good Corporate Citizen* (1998), Dobbin argues that the negative social impacts of corporations will never be wholly eliminated through requirements for stakeholder accountability. "The planners of corporate behemoths [transnational corporations] do not think in terms of stakeholders because it is irrelevant to their purpose: profits and global expansion" (Dobbin 1998: 292). However, popularizing the concept and practice of corporate accountability to stakeholders, and educating the public about the implications of the impacts of corporations can increase public awareness about corporations' activities (Dobbin 1998). Consumers' boycotts of glaringly irresponsible corporations will effect little change in the system in the long run since many other corporations have similarly irresponsible practices (Korten 1995). However, boycotts can be an effective tool for public education about corporate influence in society.

### 3.3.2 Changing Government Practices and Role

The government's role in society, which is to create and sustain conditions that are necessary for community life must become stronger. "Until relatively recently in history, business has not been central to how societies and cultures defined themselves . . . . While governments still retain the power to wage war, defend territory, and issue currency, they can do little to create wealth except work with business" (Hawken 1993: 11). Cragg (1998) explains that political leaders across the globe unanimously agree on capitalism as the appropriate model for productive economies. This consensus has resulted in the dominance of the global economy, which has "undermined the willingness and the capacity of governments to exercise their traditional responsibilities for co-ordinating economic with social development" (Cragg 1998: 643).

Society currently suffers from a lack of democratic leadership. Corporations infiltrate civil society, and thereby occupy 'space' in society that should be occupied by leaders with dedicated interests in enhancing democracy. Profit-motivated corporate leaders simply cannot replace leaders with social goals (Korten as cited in vanGelder 1999). Currently, government is strongly influenced by corporations' interests, e.g. pressure to develop loose and fewer regulations, and policies that favour economic growth. For example, it is necessary for government policies to go beyond weak encouragement of friendly "green" business practices that justify economic growth and expansion, and shift toward the development of policies and strategies that address real ecological issues. Such strategies would promote *development* of the economy rather than *growth* of the economy (Hawken 1993).

Business interests influence government practices in many ways. The influence of corporate interests in politics, including financial donation and political lobbying, has shaped policies in favour of business interests. Such policy trends include weaker environmental regulation, weaker unions, and approval of international trade agreements (Korten 1995). This is accomplished through media conglomerates, political parties that support business interests, and think tanks funded by businesses (e.g. Fraser Institute, Canadian Council on Business Issues), and major financial support of political parties such as the Canadian Federal Liberal Party by big business (Clarke 1997). To halt the influence of business in the government, Dobbin (1998) proposes that political lobbying by corporations and professional lobbyists in Canada should be restricted and the tax deduction that is currently allowed for lobbies should be removed, and corporate donations to parties should be prohibited. Also, the government's practice of contracting out its policy-making responsibilities to the private sector should be restricted, and relationships between the government and private sector must become more transparent (Dobbin 1998).[5]

In Canada there is a "move to adopt a neo-liberal agenda of minimal state intervention and … to decentralize economic and political decision making" (Mendell as cited in Brown 1997). Within the current neoliberal agenda is a shift of responsibility to local communities. However, the decentralization of responsibilities is not accompanied by adequately decentralized financing and democratic control. Decentralization is problematic because of communities' inability to influence their own destiny in a global arena due to many factors, including the enormity of global issues and the lack of government structure and power at municipal and regional levels. For example, major international or national policy decisions and macro economic trends that cause operations or corporations to phase out or leave communities are difficult to solve at the local level. The imbalance of power in society undoubtedly weighs in favour of corporations

(Brown 1997). Governments must take responsibility for assuring citizens of their rights to job security, and disciplining corporate offences to the public good (Lewis and Henkels 1996).

**3.3.3 Strengthening Civil Society**

Civil society can be defined as "the arena that is not business and not government but is between the market and politics" (Henton, Melville and Walesh 1997). Civil society includes a range of groups of varying degrees and types of organization and formality, such as the non-profit sector, volunteer organizations, charities, community and advocacy groups. The organizations that are part of civil society overlap with many organizations in the social economy. Since civil society is not formally recognized and valued in society, it is in notable decline (Dobbin 1998, Jacobs 1996). However, political scientist Putnam notes that it is essential to rejuvenate civil society since high stocks of social capital and strong civil society (mutually dependent concepts) are essential to facilitate an "advanced capitalist society" (as cited in Henton et al. 1997).

Civil society should play a significant role in advocating and advising government policy making (Dobbin 1998, Korten 1995: 309). However, corporations both frame and dominate and debate over political and social issues in Canada and elsewhere (as discussed in the previous section). Corporate control is tightly integrated into the current socio-political system, such that civil society tends to be excluded or silenced in debate. Thus those in society who are less organized and have views diverging from the mainstream are ignored.

Groups of citizens have responded to a lack of action by government on corporate issues by exposing the injustices of corporations' negative social and ecological impacts and their increasing influence in politics (Korten 1995, Dobbin 1998, Clarke 1996). For example, in Vancouver, British Columbia, the Citizens' Coalition on Corporate Issues (CCCI) has formed with a mandate to lead public debate on issues of corporate control and corporate responsibility. In addition, several activist groups in Vancouver have recently organised and instructed free public education courses for local citizens about globalization issues. Examples of other active groups against 'corporate control' in Canadian society are the Canadian Union of Public Employees (CUPE) and the Council of Canadians (C of C).[4]

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[5] In *The Myth of the Good Corporate Citizen* (1998) Dobbin has compiled an exhaustive list of Canadian citizens'

On an international scale, a flood of citizen and non-profit groups has been tackling issues of corporate social responsibility, especially throughout the past decade. Hawken estimates that tens of thousands of NGOs worldwide address some aspect of sustainability issues. Some gatherings of NGOs have culminated in declarations, frameworks and principles (e.g. United Nations Charter on Human Rights, Agenda 21) to guide corporations' as well as governments' conduct (Hawken as cited in vanGelder 1999).

### 3.3.4 Developing Alternative Organizational Structures in the Economy

As discussed previously, economic power is concentrated in fewer and fewer private hands thereby decreasing democratic accountability for this power. Corporations' lack of responsibility can be attributed to three factors: corporations' size, ownership and accountability (Korten as cited in VanGelder 1999). Below, some alternatives in the economy to the conventional corporate structure are discussed: small businesses, social organizations and alternative corporate structures.

Although smaller scale enterprises cannot be guaranteed to be more social responsible and accountable to stakeholders, businesses operating at a smaller scale are typically more responsible for impacts on the natural world that is their 'back yard' and more accountable to a community full of 'neighbours' (Hawken 1993). ). Some theorists argue that democracy requires a local base; while globalization erodes this base, small-scale activity such as businesses can help to maintain it (Brown 1997). Small businesses are better positioned than corporations to balance social with profit motivation due to their small scale, reliance on community networks and local accountability (Morehouse 1989, Hawken 1993).

In addition, organizations with social goals (e.g. community development corporations) can be formed to meet communities' needs, in some cases needs that are not met by the market (Benello 1989). Many organizations associated with the social economy seem economically insignificant in comparison to the high economic output of businesses in the formal economy. However, as the global economy pushes more employment into the social economy, it is becoming increasingly obvious that the social economy really is the 'base' of the whole economy. It is "growing, probably faster than most 'mainstream' economists and public

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anti-corporate activist groups.

officials care to admit" (Morehouse 1989: 3, also Daly and Cobb 1994, Quarter 1992). The growth of the social economy presents an opportunity to develop organizational structures in the economy that take into account social, economic and ecological well being by satisfying local needs.

Alternatives to corporate structures for business practices are also emerging. These structures are intentionally more democratic and worker-controlled than private and public corporations. For example, democratization programs have been introduced in some businesses to develop less hierarchical structures and more participative management within corporations; Russ and Usher (1986) call such approaches 'humanizing industry". Alternative forms of corporate management are being developed in co-operation and compromise between management and workers; examples include worker owned businesses, employee shareholding programs and co-operatives. While some view these alternative structures as new ways of exploiting labour (Clarke 1997), others are optimistic about the opportunities they can provide for workers' advancement and skills (Brown 1997). From a business management perspective, participation in the workplace is increasingly demanded because of advanced education levels of employees; and awareness from rights based movements for civil rights and feminism and consumer rights (Benello 1989).

## 3.4 SUMMARY OF CORPORATE SOCIAL RESPONSIBILITY PRACTICES: WHERE TO GO FROM HERE?

Neither the corporate-led practices, nor the alternative practices discussed above constitute systemic changes to the current system on their own. However, the multitude of corporate-led practices addressing social responsibility demonstrates that corporations are responding to society's concerns about the impacts of corporate practices because these concerns are a threat to their profitability and long term business success. The citizen led approaches to developing a more democratic concept of the economy demonstrate that there is agitation in society, thus there is potential to change elements of the current system.

Most corporate-led practices that address demands for public accountability are limited in depth by corporations' profit motivation and accountability within the marketplace to shareholders and consumers; stakeholders that can impact corporate profits and reputation are appeased. Practices that address the issue of social responsibility from outside the market (education about corporations, boycotts, changes in government practices, strengthening of civil society, and alternative structures of organizations) are an important component in structural change from a growth oriented economy toward a needs based economy. However, these alternative recommendations and practices must become more widespread if they are to effect major changes in the way that all but a marginal part of society thinks and proceeds toward achieving well being.

## 3.5 SOCIAL ACCOUNTING AND AUDITING

### 3.5.1 What is Social Accounting and Auditing?

If organizations' accounts of social and ecological activities and impacts were as closely monitored as financial accounts, information for decision making throughout society would be more complete. This section explores how social accounts of organizations' progress could be developed and assessed (i.e. audited). As discussed in Chapter 2, the concept of social accounting is defined as the consideration of the full and ultimate consequences of economic activity on individuals, households and communities in an organizations the assessment of success (Ross as cited in Ekins 1986).

Just as none of the practices discussed thus far in this chapter purports to be a singular solution for redefining progress, neither does social accounting and auditing. An underlying objective of exploring social accounting and auditing in this thesis is to investigate whether social accounting and auditing could emerge as an alternative framework for measuring organizations' progress, or whether it suffers from the same shortcomings as the corporate-led initiatives for developing corporate social responsibility and accountability that have been discussed already.

As stated previously, the purpose of social accounting is to facilitate an understanding of the total implications of an organization's activities and outcomes. For example, social accounts contain indicators of an organization's outcome and impacts pertaining to employee interests, the community, and the environment (Matthews 1995). Social accounting is closely related to some existing practices that measure qualitative impacts and outcomes. First, the concept of social accounting and auditing is similar to that of social indicators. Social indicators are starting to be developed and adopted by several communities to track their collective quality of life in a way that is more meaningful than macro level or financial indicators, since "few people get passionate about spreadsheets. . . . For indicators to lead to change, there needs to be emotional content" (Lawrence 1997: 183). Second, social accounting and auditing is similar to program evaluations, which are routinely undertaken by social organizations to measure the effectiveness in reaching their stated goals; however, this type of evaluation is generally focused on a particular program instead of the organization as a whole.

Financial accounting originated as a system for managers of corporations record cash flows, in order to divide profits for shareholders and monitor organizations' progress in making profits. Social accounting has a much broader scope of accountability than financial accounting. It is not restricted to examining the narrow economic and financial aspects of an organization's activities and outcomes. However, the general function of social accounting and auditing is parallel to its financial counterpart: measuring performance, monitoring progress and facilitating accountability. The scope of accountability and auditing is much broader than financial accounting: while financial accounting accounts to shareholders, social accounting accounts to stakeholders and the public. Table 1 contrasts several aspects of social accounting and auditing with financial accounting and auditing.

**Table 1 Features of Financial and Social Audits**

| Feature | Financial Accounts and Audits | Social Accounts and Audits |
|---|---|---|
| Perspective | Claims to be objective; single opinion | Openly value laden and subjective; includes stakeholders' views |
| Selection of criteria for assessment | Selected by regulatory bodies, governments, industry standards | Selected by stakeholders, based on stakeholders' agendas and values |
| Focus of audit | Economic impacts are analyzed; embraces the utilitarian notion of 'the end justifies the means' by evaluating the 'ends' (profit) | Social behaviour and impacts of organizations are analyzed; both the means and ends of organizations' activities are studied |
| Goals accounted for and audited | Specifically defined economic goals for profit and growth | Broad goals that balance social and economic motivations |
| Content | Quantitative data | Qualitative and quantitative data |
| Motivation | To account to shareholders; to ensure trust of shareholders; to fulfil legal requirements | Motivation varies. Some motivations are to account to stakeholders, ethical investors and/or society in general; to set own standards of evaluation to prevent regulation or critical audit from outside parties; to improve internal and public understanding of the organization; to measure and improve performance. |
| Audience | Investors, industry, media, potential shareholders | Stakeholders, media, government, industry, society |

(Sources: Gray et al. 1996, Geddes 1992)

### 3.5.2 Development of Social Accounting and Auditing Concept and Practice

Social accounting and auditing practices are not a recent invention. As discussed in Chapter 2, social accounting is in fact implicit within organizations in the social economy because motivations and principles increasing well being are implicit in their delivery of services. However, social accounts are not formalized and uniformly systematized like financial accounts. A contemporary wave in the development of social accounting and auditing practice is emerging from the field of business ethics.

An American economist, Kreps, introduced the concept of social accounting for businesses' use in the 1940s (Zadek et al. 1997). Then, the shift in political values and challenges to authority that occurred in the 1960s facilitated development and experimentation with social auditing (Bauer and Fenn 1972, Zadek et al. 1997). Since the 1960s the development of social accounting and auditing practices has been shaped by practitioners' intentions and needs for the tool, and changes in political and economic climate (Gray et al. 1996).

In the 1970s many social audits mimicked the format of financial reports and balance sheets; they ascribed monetary value to corporate 'social' activities, such as training for workers and reclamation of land. These models are attributed to Linowes (1970) and Abt (1971), among others. However, barriers to implementing these ideas were faced because businesses were not persuaded of the benefits of measuring and disclosing social information. Sater (1971) and Gray (1973) developed a competitive rating scale for various dimensions of firms' social performance with standard rating scales for particular industries (as cited in Dierkes and Bauer 1973).

Bauer and Fenn (1972) made significant contributions to current social accounting and auditing processes. They examined organizations' policies related to (what they defined as) 'social responsibility', analyzed strengths and weaknesses in the organization, and developed recommendations to improve its social performance. The principles and intentions of social accounting and auditing have not changed significantly since Bauer and Fenn's concept (Epstein 1991). However, methodological approaches have become quite diverse. Some social accounts generally include mostly qualitative data (instead of quantitative data) and in some cases the accounts are developed with stakeholder consultation rather than by objective "experts". This could reflect the general trend toward increasing acceptance of qualitative data in evaluation and monitoring and increased demand for public participation since the 1970s (Posavac and Carey 1985).

In the 1980s and 1990s especially, the association of corporate activities with environmental disasters, human rights, etc. is resulting in increased attention to stakeholder demands by corporations. Also, global attention from the publication of the Brundltand Report (1987) popularized the concept and need for sustainable development, and the Earth Summit (1992) raised expectations for more socially responsible business conduct (Brown 1997, Lawrence 1997). Social accounting and auditing is growing from these trends. A few of the many emerging styles and methods of social accounting and auditing practices for organizations are described below:

- The Stakeholder Alliance argues that since corporations are granted charters to serve the public purpose, they should be required to keep a 'balanced scorecard' that accounts to all stakeholders, not just shareholders (Estes 1997). The Alliance has developed an 'ethical scorecard' for social accounting and auditing that is analogous to a financial balance sheet; it provides stakeholders with copious information about a corporation so they can make informed decisions about purchases or investment. It is assumed that with information regarding the social, ecological and economic impacts, stakeholders will be able to look after their own interests (Estes 1997: 118) and democracy in society will ensue.
- EthicScan (consultants) has performed hundreds of screens on corporations in various industries, benchmarking corporate performance with peer organizations. The process of social auditing advocated by EthicScan rates organizations on approximately 50 indicators of social responsibility (Ethicsan on Internet: www.ethicscan.on.ca). The results are not publicly disclosed to non-monetary stakeholders, but they are used to guide ethical investors and consumers in their investments (Ellmen 1997).
- Canadian Business for Social Responsibility (CBSR on Internet: www.bsr.org), an association of Canadian Businesses, does not emphasize external verification of the social audit. CBSR has developed a basic guide on how to conduct an internal social audit, providing businesses with a self-assessment kit to examine seven areas of social responsibility: community development, diversity, employee relations, environment, international relationships, marketplace practices and fiscal responsibility.

- The Institute for Social and Ethical Accountability (ISEA) is a professional organization with a membership of worldwide businesses involved in social accounting. ISEA develops best practices, standards and accreditation for social accounting.
- NEF is a leading organization in Britain for the research and practice of social auditing, sustainable development indicators, and community economics. NEF has been an external verifier (role explained later in the chapter) for several high profile social audits since the late 1980s: The Body Shop, Ben and Jerry's, Traidcraft and most recently VanCity Credit Union in Vancouver. NEF has developed an approach to social accounting and auditing that is centred on the participation of stakeholders and the measurement of social impacts by social indicators (Zadek et al. 1997). A social accounting and auditing method designed particularly for non-profit organizations has also been developed by NEF (Mayo 1997).

NEF's social accounting and auditing concept warrants further exploration in this thesis because of its participatory process to develop social indicators, and its well-developed and transferable method. The NEF social audit process is described below to provide an idea of what is involved in one cycle of a social audit process. Also, the NEF process serves as a guide to applying social accounting principles and methods in the case study in Chapter 4. The description of this social audit process has been produced in a workbook format by NEF, and targeted at organizations interested in social auditing (Pearce, Raynard and Zadek 1996). A summary of the social auditing process follows:

1. **What is a social audit and why do a social audit?** Social Auditing is the process whereby an organization accounts for its social performance and reports on it as a basis for improvements to its performance. An organization could consider social auditing if it is committed to some of the following: objectives to achieve social, community, society or cultural benefit; desire to systematically improve social performance; interest in exploring new ways to monitor non-financial objectives to improve planning; and interest in learning about stakeholders' perspectives.

2. **Define objectives and actions for meeting objectives.** Most organizations' social objectives are poorly understood and they change over time. Examples of some general social objectives are job creation, provision of community services, organization of training for staff, aid to community projects, and encouragement for community ownership. At this stage it is

important to establish how the organization achieves its current social objectives and controls its social performance.

3. **Identify stakeholders and set criteria.** Determine who the key stakeholders are. They affect or are affected by the organization (two to five groups can be consulted per cycle on a rotating basis). Stakeholders should be consulted about their issues and concerns regarding the organization's practices and social impacts. Approaches to stakeholder communications include interviews, focus groups, meetings, and questionnaires.

4. **Indicators and benchmarks.** The process of developing indicators is of key importance for measuring the progress toward objectives. The process requires reflecting upon the organization's values, consulting with stakeholders and considering societal norms. The purpose of indicators is to simplify, measure and communicate trends as a basis for making decisions. Tools associated with indicators are benchmarks (points of reference to compare performance with other organizations), and targets (desired level of performance). A balance of quantitative and qualitative indicators is used.

5. **Social Bookkeeping.** Social accounts contain information about objectives and stakeholders' views. The social bookkeeping system should be straightforward. Some of the social records that are likely kept by most organizations and provide useful information for the social accounts include employee records, output records containing information about the volume of work done and how it reaches target customers or users, minutes, financial records, and transcripts from focus groups and interviews with stakeholders.

6. **Year End Process: the Audit.** The social accounts are assembled and summarized at the end of an annual cycle, and then shaped into a social report. An independent party should be involved in this process to ensure credibility, especially if the report will be publicly disclosed.

7. **Audit verification and review.** External verification of an organization's social audit examines the fairness and adequacy of the social audit process and representativeness of the results in its report of the social audit. However, the role of the external verifier is not to evaluate the organization's actual social performance. It is also suggested that a group of community leaders test the validity of the content of the report.

8. **Disclosing accounts and taking actions to improve performance.** If the social report is disclosed, the results should be made available to stakeholders and the local community. After the audit has been published and distributed, the social objectives should be reviewed for relevance and effectiveness. Targets should be set for the following year, and the book keeping

system should be updated. Also, the balance between commercial and social performance should be addressed.

### 3.5.3 Motivation for Social Accounting and Auditing

Since social accounting and auditing are concepts that can be interpreted and applied in very different ways, the application of social accounting and auditing methods varies significantly for different types of organizations, depending on the theoretical perspective and objectives of the organization:

- **Classical theory:** social accounting and auditing can be used as a way of finding out more information about the stakeholders and the market. A published report on the social audit can be used as a tool to boost social legitimacy and a marketing tool.
- **Social institution theories:** social accounting and auditing increases transparency and accountability of corporations in society, draws support from stakeholders and enhances the long term economic success of the organization.
- **Structural change theories:** social accounting and auditing works to change society overall's approach to measurement of progress, so that defining and measuring progress is widened to include ecological, economic and social considerations.

Next social accounting and auditing is analyzed in greater detail as it applies to each of the three theoretical perspectives identified above.

#### 3.5.3.1 Social Accounting and Auditing From the Perspective of Classical Theory

Social accounting and auditing must increase the bottom line in order to be considered a viable practice from a classical theorist's perspective. Thus, most businesses define social responsibility as they wish and as long as it assures profitability (Ninacs 1998: 20).

Social auditing provides organizations with stakeholders' opinions and perceptions about corporate practices; it is a useful market research tool but it does not fundamentally challenge the role of businesses in society. In fact, it gives organizations a marketing edge because it provides them with knowledge about their stakeholders' interests (Owen 1992). The only obligatory relationship that is honoured by mainstream corporations is with their shareholders. However, some corporations may claim to be accountable to a spectrum of stakeholders by going though the motions to produce a shallow social report. However, such an organization's self-congratulatory social report by such an organization could damage a corporation's reputation if it were critiqued. For example, the environmental advocacy group, *Friends of the Earth,* annually bestows a 'Green Con' award upon the organization that they deem to promote the most misleading claims about their corporate social responsibilities (Owen 1992: 15).

It is predicted by some that organizations will eventually be required to be socially (in addition to financially) accountable to their stakeholders; this prediction is based on shareholders' and customers' increasing demands for disclosure of social, ethical and environmental information (Gravitz 1998). Thus the impetus for the development of social auditing can be seen to be parallel to that of financial auditing; the 'pioneers' of social accounting and auditing may benefit from setting the standards for these practices by developing a socially conscious marketing edge.

**3.5.3.2 Social Accounting and Auditing from the Perspective of Social Institution Theories**

The information that is communicated to shareholders and investors through financial accounts is influential in society. This information enhances the social and political power of corporations and owners of capital (Gray et al. 1996). Social institution theorists argue that "in participative democracy there must be flows of information in which the controllers of resources [corporations] provide accounts to society about the use of those resources" (Gray et al. 1996: 37). This implies that corporations are held responsible to society for their impacts. By auditing and disclosing social accounts, transparency about organizations' performance is developed (Bauer and Fenn 1972). In particular, social accounts point out many issues that are undetected in financial accounts: quality of life issues; long term consequences of decisions; and the impact of activities on the domestic sphere as well as the public sphere of society (Turok as cited in Owen 1992).

Social accounting and auditing can provide both the business and its stakeholders with information about market transactions. Social institution theorists advocate for the inclusion of all stakeholders in social accounting and auditing practices. The inclusion of a variety of stakeholders (even those with negative perspectives) can be justified from a profit motivated perspective; if a stakeholder is purposely ignored in the social audit, their negative perspective will possibly be transmitted and amplified through protest or the media. In addition, long-term success of an organization is partly attributed to developing relationships with stakeholders (Zadek et al. 1997, Lee 1998) thus providing it with an incentive to pursue social accounting and auditing.

#### 3.5.3.3 Social Accounting and Auditing from the Perspective of Structural Change Theories

Since structural change theorists advocate transformation of the concept of economy, social accounting and auditing is seen as "an attempt to challenge the hegemony of money over both the productive economy and society, and of accountants. . . . over economic, social and political decisions" (Geddes 1992: 239). Conventional accounting measures growth and profit; it does not provide information that guides economically, socially and ecologically balanced decisions (Owen 1992).

Conventional accounting is "familiar with the categories of 'more' and 'less' but it doesn't know that of 'enough'" (Gorz 1989:112 as cited in Owen 1992: 19). Some Social Change theorists argue that social accounting is simply part of the classical growth model; it justifies and legitimizes the activities and structure of capitalism, and it is not a tool for facilitating social change (Gray et al. 1996: 23, Puxty 1986, Tinker, Merino and Neimark 1991). Systems of power, economic activity, and social organization must be reformed if society can become more socially equitable and sustainable. They caution that shallow attempts at social change may in fact hinder real societal transformation (Gray et al. 1996): "Social auditing may do more harm than good because it may give the impression of concern and change, but, in fact, will do no more than allow the system to capture radical elements . . . and emasculate them." (Gray et al. 1996: 77). Social accounts may not in fact enable the voices of stakeholders that are excluded and marginalized in society to be heard, and instead amplify the voices of those that are already heard (Kelly et al. 247).

In response to the inability of economic indicators to capture the full impacts of organizations' activities, some structural change theorists are supportive of the development of alternative indicators through social accounts. They argue that "the value of social accounts goes beyond the production of relevant and useful information" (Kelly et al. 1997: 161) to develop a widened concept of success that is based on balanced social well being instead of economic growth and profit (Geddes 1992). Structural change theories advocate reforming the whole concept of measurement throughout society, rather than adding the voluntary practice of social accounting and auditing to the bookkeeping duties of organizations. The social audit is intended by social change theorists to be a tool for understanding the broader concept of 'economy', which includes the interrelationship between the formal and social economies (Geddes 1992).

### 3.5.3.4 Summary of Social Accounting and Auditing from Three Theoretical Perspectives

The three different types of social accounting and auditing practices (motivated from three different theoretical perspectives) are summarized in Table 2 from the point of view of a) the benefits to the organization doing the social accounting and auditing, and b) the benefits to society, if social accounting and auditing is practised according to each of the three types of theoretical principles.

**Table 2 Theoretical Perspectives on Benefits of Social Accounting and Auditing to a) Practising Organization and b) Society**

| **Theoretical Leanings of Social Accounting and Auditing Practice** | **Benefits of Social Accounting and Auditing to the Organization** | **Benefits of Social Accounting and Auditing to the Stakeholders and Society** |
|---|---|---|
| Classical theory | -Market information<br>-Public image<br>-Potential to increase profits | -No benefits. Stakeholders are superficially defined and not involved in the process |
| Social institution theories | -Relationship with stakeholders<br>-Market differentiation<br>-Recognition for social goals<br>-Potential to increase profits | -Increased information and transparency for market decisions<br>-Stakeholders' input into the organization |
| Structural change theories | -Opportunity to track progress toward strategies and goals<br>- Indicators defined in terms other than economic, thus validation of non-economic goals and assessment in non-monetary measures is possible | -Stakeholders' participation in social accounting and auditing process will help their interests to be met<br>-Improved social, ecological and economic well being because the organization is assessed according to a multiple bottom line |

### 3.5.4 Types of Organizations Practising Social Accounting and Auditing

Several organizations throughout North America and Western Europe have explored and implemented social auditing techniques to assess progress toward their goals more comprehensively than through conventional accounting (Geddes 1992). Organizations that tend to practice social accounting and auditing could be considered a) part of the social economy or

b) a business with self-defined social objectives that accompany its profit motive. Some of the corporations mentioned above have incorporated social and ecological "value" into the products they sell to a niche market of social consumers (refer to the discussion on social consumerism earlier in the chapter).

Examples of organizations in the social economy that have undertaken social accounting and auditing practices follow. Metro Credit Union in Toronto conducted a social audit in 1996 and published a report (Metro Credit Union 1997b). VanCity, Canada's largest English speaking credit union, conducted its first externally verified social audit in 1997. (VanCity's social audit is discussed later in this chapter.) Several micro-credit lending programs, e.g. Aspen Institute (Aspen Institute 1997) and ACCION (Himes and Servon 1998) are interested in capturing their social outcomes on the well being of their clients and communities by developing social indicators.

Examples of businesses that have undertaken social accounting and auditing are more plentiful, although implementation of social accounting and auditing by businesses is still quite limited. Externally verified reports have been completed by Body Shop, a cosmetics retail firm (Britain); Ben and Jerry's, an ice cream manufacturer and retailer (U.S.A); SBN Bank (Scandinavia); and Traidcraft, a fair trade organization (Britain). Some of these organizations started building social accounts and conducting social audits in the late 1980s, thus they have undertaken several social audit cycles (Zadek at al 1997). NEF and other British consultants have externally verified several businesses' social reports. The external verifier's role is to monitor the organization's social accounting process and to verify the representativeness of the organization's social accounts in their report. Each of these businesses has social goals that guide its operation. For example, Body Shop maintains that its products are ecologically benign or beneficial, Ben and Jerry's commits to supporting family farms, and Traidcraft pledges 'fair' trade for products internationally. In addition, each promotes its practices and corporate social responsibility principles through education and advertising (Zadek et al. 1997).

It should be noted that many corporations have released social reports that promote their philanthropic activities and charity projects; however, this type of corporate social reporting is superficial. Such reports are unsubstantiated by social accounts of the operations and impacts of the organization.

### 3.5.5 Challenges in Social Accounting and Auditing Practice

Several organizations that have undertaken social accounting and auditing have cited some common challenges in the process. These challenges likely stem from the novelty of social accounting and auditing both within the organizations and in society. Three of these challenges are briefly discussed: negative media attention; lack of internal organizational support; problems in building social accounts and the lack of standards and protocol for social accounting and auditing.

#### 3.5.5.1 Negative Media Attention

In some organizations' attempts to stave off public criticism about their social performance by voluntarily disclosing social information, their efforts are criticized their peers, the media, and the public. In the case of shallow and self-promoting reports the criticism is warranted. However, in the case of reports that strive to balance positive and negative results backed by solid research, the report is sometimes still resisted. The reactions may be a result of public distrust of corporations in general, and/or distrust in the validity of qualitative research. In addition, the style of assessment and reporting a social audit is very different from a financial report because it reports on the organization's shortcomings, failures and areas for improvement (Zadek et al. 1997).

For example, the Body Shop's recent social audit (1997) was criticized by the media as a public relations scam. When the social report was released, the media subsequently publicized an alleged incident of emission of bath products manufactured by the Body Shop into the Thames River in London. Defenders of the Body Shop (internal management as well as external business ethics specialists) turned these allegations back to the media by criticizing the media industry's profit motive in sensationalizing and promoting the controversial story (PR Central 1998).

#### 3.5.5.2 Lack of Support within Organizations to Develop Social Accounts

In some cases, managers and staff of organizations conducting social accounts and audits have been reluctant to support the social accounting and auditing process for various reasons. In some cases staff have been apprehensive about the management's motives to develop social accounts. Some staff resent that they are required to spend time and resources on a process that may scrutinize their own performance (Zadek et al. 1997). According to Parker (1997), who is involved in Ben and Jerry's social audits, managers seldom appreciate the benefits of the social audit to the organization or its stakeholders, but they are usually eager for the release of a public social report to boost public relations (Parker 1997: 140).

Traidraft (a fair trade organization) reports that it has gained understanding, support and co-operation from staff and management only after they proved the utility of the social audit after several cycles (Evans 1997). Metro Credit Union mentions the importance of distinguishing between organizational analyses and social audits; if the two are combined the strength of the report of the social audit could be compromised if sensitive information regarding internal management matters is censored (MetroCredit Union 1997a).

Organizations (particularly profit motivated corporations) are not accustomed to systematic assessment of social progress (Dierkes and Bauer 1973). Difficulties have been cited by organizations undertaking social accounting in finding relevant benchmarks to compare social performance, since the practice of social measurement, thus the collection of relevant data, is unprecedented among peer organizations. In addition, relevant historical social data for the organization often does not exist (Dierkes and Bauer 1973: 37).

### 3.5.5.3 Standards and Protocol for Social Accounting and Auditing

Universal social audit principles and standards are likely distant since the tool is inherently flexible and voluntary. According to NEF, critical principles to be considered in social auditing are incorporation of multiple perspectives, comparative over time and with other organizations, comprehensive examination of the organization's process and product, regularly performed audits, verified audits, and disclosed reports of the social audits (explained in Table 3 below).

**Table 3 NEF's Key Social Auditing Principles**

| Principle of Social Audit | Explanation of Principle |
|---|---|
| 1. Multi-perspective | The concerns, interests, needs, perceptions of the stakeholders should be reflected in the social audit. |
| 2. Comparative | The organization should compare own performance over time, and compare performance with organizations in its industry. |
| 3. Comprehensive | All aspects of the organization's performance should be addressed. |
| 4. Regular | Social audit should be done on a regular basis, not just once |
| 5. Verified | Accounts should be audited and/or verified by an impartial person to give credibility to the audit. |
| 6. Disclosed | Social report (or less formally presented information) should be made available to stakeholders and the wider community, to comment and be further involved. |

(source: Pearce et al. 1996)

A lack of standards in social auditing has been cited as a deterrent to mainstream organizations' development of social accounts (Zadek et al. 1997). ISEA has recently been developing voluntary standards for social accounting and auditing; these will be launched in 1999 (ISEA on Internet: www.accountability.org.uk). Currently the legitimacy of social accounts depends on the reputation and capabilities of the external verifier of social audits to approve the development of social accounts and the validity of qualitative and quantitative information in the social report (Zadek et al. 1997). The external verification role for social audits has generally been filled by organizations involved in researching and developing social auditing ideas (e.g. NEF and EthicScan) and by academics in the field of business ethics.

Since universal controls and standards on social accounting and auditing practice are just being developed, there are no uniform processes to follow in social accounting and auditing. The inherent flexibility of social accounting and auditing means that the tools are designed to be adaptable to various needs, organizations and social contexts. However, divergent motivations and methods in social accounting and auditing practices signal potential splintering of this field (Gray as cited in Zadek 1997).

Hypothetically, if the government regulated standards for social accounting and auditing, it is likely that lobbying business interests would achieve weak regulation and lenient standards for social audits and disclosure (Zadek et al. 1997). An alternative means of achieving legitimacy for social audits is verification of their accuracy and representativeness by third party organizations that are seen as honest and socially intentioned in society, e.g. non-profit and social justice organizations (Zadek 1998). It would also be appropriate for community stakeholder groups to verify audits since they are directly affected by the impacts of organizations in the community.

Another means of standardization is the creation of best practice and protocol. For example, Metro Credit Union proposes that specific classes of institutions and industries should develop detailed protocols for social accountability of credit unions. It has developed some topics and criteria that should be addressed by credit unions in social accounts and audits (1997a).

### 3.5.6 VanCity and Social Auditing

VanCity Credit Union's social audit is discussed to illustrate some of the facets of social accounting and auditing that have been discussed thus far. Included in the discussion is VanCity's motivation to do social auditing, the applicability of social auditing in organizations associated with the social economy, and VanCity's approach to social accounting and auditing practices. This discussion also serves as an informative background to the case study in the following chapter, which focuses on alternative measurement for VanCity's Alternative Lending Program.

#### 3.5.6.1 Co-operatives and Social Responsibility

The co-operative philosophy of credit unions stipulates their commitment to altering the basis by which business is undertaken while participating in the market. They seek to achieve these goals by improving outcomes in the marketplace for economically weak classes in society (Brown 1997). The Co-operative Union of Canada (CUC) stipulates that co-operative organizations' commitments to social improvement should be addressed in their mission statement and acted upon through socially beneficial activities (CUC 1985). VanCity's mission statement is:

> Vancouver City Savings Credit Union is a democratic, ethical and innovative provider of financial services to its members. Through strong financial performance, we serve as a catalyst for the self-reliance and economic well being of our membership and community (VanCity 1998).

Credit unions do not have the general practice of measuring the impacts and outcomes of their 'social' activities; they lack a systematic method of accounting to their stakeholders for how they fill their social role (Co-operative Union of Canada (CUC) 1985). According to CUC the benefits to a co-operative organization of doing a social audit include improved management of the organization, broader scope of social action to further its goals, and stronger membership due to the organization's resulting adherence to co-operative principles (CUC 1985).

#### 3.5.6.2 VanCity and Corporate Social Responsibility

VanCity was founded in 1946 and it is now the largest English speaking credit union in Canada (Brisbois 1997) with over $5.6 billion in assets and over 250,000 members (VanCity 1997). VanCity's financial services are competitive with Canadian banks and trust companies. It is regarded as a socially progressive organization and a leader in community development (Johnston 1997). Maintaining its reputation, VanCity has recently become a leader in the social auditing field in Canada.

VanCity has financial goals and commitments that are similar to other mainstream financial institutions. However, it differs from its mainstream competitors in the financial services industry. As a co-operative organization, it applies financial gains to meet needs of the local community. "VanCity's mission is to be a democratic, ethical and innovative provider of financial services and to serve as a catalyst for the self-reliance and economic well-being of our members and the community" (VanCity on Internet: www.vancity.com). VanCity could be considered an organization of the social economy. The credit union is ultimately responsible to its members and each member has one vote regardless of the number of shares he or she holds. Therefore, the credit union is more responsive to its members than a large corporation that is run by the interests of a small minority of shareholders with no stake in the community (Ross and Usher 1986: 62).

VanCity has defined three facets of corporate social responsibility for which it is to be accountable: economic self-reliance, ecological responsibility and social justice. In particular, it promises to offer socially responsible products and services that benefit and invest in the community; to support projects and organizations in the community that contribute to social justice, ecological responsibility, and economic self-reliance; to ensure that its internal operations are socially and ecologically responsible; and to encourage socially and ecologically responsible conduct by other businesses. VanCity is committed to modelling and advocating business practices with commitment to social and environmental responsibility through its co-operative organizational structure as well as its practices and products. (VanCity on Internet: www.vancity.com).

### 3.5.6.3 VanCity's Motivation for Social Accounting and Auditing

VanCity has recently been scrutinized for the implications of its size in comparison to other credit unions. For example, Ekins states that "the large credit unions in Canada resemble chartered banks. . . . While there is some element of social accounting the pursuit of profit often reduces social accounting to a bare minimum" (1986: 157). In addition, a study of the social and financial disclosure of organizations in Canada (by Canadian researchers from the University of Quebec at Montreal (UQAM) in 1992) argued that large organizations have a "moral and legal obligation to report on how they have managed their resources in both financial and social terms" they have such a wide-ranging impact on almost all aspects of society (Brisbois 1997: 190). This study assigned a low rating to VanCity (in relation to other financial institutions) for its level of social and financial disclosure. This rating concerned VanCity since it has a strong history of community support compared to most of its competitors in the financial services industry (Brisbois 1997: 191).

Partly in response to these concerns, VanCity disclosed social information in its 1992 *Annual Report* on members, staff, community and ecological responsibility in a "Social Accounting" section. Since then, VanCity has intensified its social reporting procedures. In 1993, *the Annual Report* disclosed the organization's business objectives and performance, and listed future commitments. In 1995, information about non-financial performance was published in the Annual Report (Brisbois 1997). These practices provided VanCity with a background that led to social accounting and auditing.

After considering an array of social accounting and auditing methods (e.g. the "social balance sheet" method described earlier in the chapter), VanCity decided to implement the NEF model of social auditing (described earlier in this chapter) since it met their goals to increase transparency and accountability to stakeholders. The NEF model is based on stakeholder involvement and social indicators. The Chair of VanCity's Board of Directors, Coro Strandberg, describes a few of the motivations of VanCity's social audit: checking on social and environmental performance; developing strategic competitive advantage relative to competitors, positioned by corporate social responsibility (as a result of building stakeholder relations and improved social performance); and building public credibility and inoculating VanCity from public cynicism (Carlson 1998, Carlson 1999).

### 3.5.6.4 Approach for VanCity's 1997 Social Audit

VanCity's approach to social auditing is summarized in the Auditor's Report (external auditors were NEF of U.K. and Solstice Consulting of Burnaby) of VanCity's *Social Report 1997:*

> The social auditing approach adopted by VanCity involves policy review; stakeholder dialogue processes including focus groups, surveys, and interviews; publication of a report summarizing information and commitments arising from the social audit process; and an external verification process. The external verification process involves monitoring all stages of the auditing process and testing of data and qualitative information presented in the published report. (VanCity 1998: inside cover)

In VanCity's first social audit cycle (1997), it identified four key stakeholder groups (staff, members, credit unions and community) and consulted with them. "The environment" was also reported on as the context for VanCity's business rather than as a stakeholder. Other stakeholders (business alliances and suppliers) were mapped for consultation in the future; VanCity's policies related to stakeholders and a profile of each of these stakeholders were reported in this cycle. In addition, some key stakeholders for two of VanCity's subsidiaries (VanCity Community Foundation and VanCity Community Enterprises) were consulted. Citizens Bank of Canada (a VanCity subsidiary) was not included in the scope of this social audit cycle; it will produce an independent externally verified social audit in 1999.

Indicators of VanCity's performance were developed as a result of consultation with management and stakeholders, review of internal documents, and social and industry norms. The social accounts are a combination of qualitative and quantitative information; they include data about VanCity's performance (for indicators) as well as benchmarking data. The latter involves collecting data from peer organizations, e.g. Canadian financial institutions (VanCity 1998).

Many organizations do not publish the results of social audits in a public report until they have completed several audit cycles. The completion of several audit cycles allows them to gain sufficient support within the organization and sufficient data for social accounts to confidently publish a report. However, VanCity implemented its social audit with the intention of publishing an externally verified report (VanCity 1998). The factors that were likely to contribute to

VanCity's public disclosure of its first social audit were: its financial and human investment dedicated to the internal 'social audit team', its competence in social evaluation and reporting gained by previous types of non-financial evaluation and disclosure, and its motivation to use the social audit as a means of accounting to stakeholders and the community (as opposed to motivation of internal management purposes, which would not necessitate a report). VanCity's 56-page *1997 Social Report* is available in hard copy (VanCity 1998) or on the Internet (www.vancity.com).

In the *Social Report 1997*, a section is allocated to each of the credit union's four key stakeholders. Within each, a profile of stakeholders and VanCity's commitments to the group are given, the involvement of stakeholders in the social audit is outlined, and the issues identified by stakeholders and key indicators are reported. Within each section, indicators of performance illustrate VanCity's performance with regard to the stakeholders' identified issues and concerns. In the report, VanCity commits to working toward stakeholders' interests: performance targets are set and strategies to reach targets are identified. Similarly, the views of VanCity Community Foundations' and VanCity Enterprises' stakeholders are reported. For stakeholders groups that were not consulted, less detail is accordingly reported. The next audit cycle is scheduled for within two years.

### 3.5.6.5 VanCity's Leadership Role in Social Auditing

VanCity has taken a leadership role in both corporate social responsibility practices and social auditing. By defining its own purpose and mission on corporate social responsibility principles, it encourages other organizations to do the same by its example. Several other credit unions in Canada are also implementing or considering implementing social accounting and auditing practices (Carlson 1998). VanCity has shared its experience in social auditing with other credit unions, and supported the introduction of social accounting and auditing to corporations and NGOs in the Vancouver area (VanCity 1998). In addition, the local external verifier of VanCity's social audit, Solstice Consulting, is a source of information and external verification of social accounts for organizations in the Greater Vancouver region.

The real benefits of the social audit for VanCity remain to be seen, since the outcome will be manifested in long-term stakeholder relations, public reputation, and effectiveness of its programs to benefit the community.

## 3.6 CONCLUSIONS ABOUT SOCIAL ACCOUNTING AND AUDITING PRACTICE

In broad terms, social accounting and auditing could contribute to structural change in society by introducing a new approach to assessing progress. If this framework of assessment was implemented on a widespread basis, it could contribute to radically changing society's measurement of success from a financial 'bottom line' approach toward a more balanced 'multiple bottom line' approach that is based on multiple goals and perspectives. This type of structural change would also depend on radical changes in society's values and strategies at many levels. Examples of some strategies for working toward some of these major structural changes were discussed in this chapter: changes in government practices, strengthening civil society, and developing alternative organizational structures. Each of the strategies discussed in this chapter cannot effect change on its own, thus a combination of strategies are necessary to develop systemic changes in society that challenge mainstream assessment of progress, status quo politics, and the market system.

It has been learned in this chapter that social accounting and auditing is a flexible concept that can address many types of organizations' motivations including organizational management, stakeholder and public relations, and alternative assessment of progress. Social accounting and auditing can also address many types of organizations' goals. It is a particularly beneficial tool to organizations with social goals (e.g. organizations in the social economy) because it allows them to assess progress in social terms, and to be accountable to their stakeholders for their self-proclaimed social responsibilities and objectives. The progress and contributions of many organizations in the social economy are not appropriately assessed in mainstream financial accounting (as discussed in the context of the whole economy in Chapter 2). Social accounts can more accurately measure such organizations' progress toward social goals (Ross and Usher 1986). Progressive tools for social accountability will likely be developed and practised in the social economy, e.g. credit unions and non-profit organizations. The objectives of such organizations are aligned with social accounting and they can benefit from assessing progress in social terms.

As a credit union, VanCity could be considered part of the social economy: it has socially responsible goals and principles that accompany its profit motive and competitive participation in the formal economy (i.e. the financial services industry). Social accounting and auditing facilitates VanCity's accountability for its social goals and accountability to its stakeholders. In addition, social accounting and auditing enables VanCity to differentiate itself from competitors in the financial services industry.

Most commercial organizations' focus on profit maximization and a financial accounting rationale. This prevents most corporations from assessing progress in a way that differs philosophically from mainstream financial accounting (Lewis and Henkels 1996). Corporations' dedication to corporate social responsibility and accountability is thus limited to meeting the public's demands for transparency and accountability. Corporations are increasingly concerned that they respond to stakeholders' interests and concerns, since stakeholders can affect businesses' reputation and success. Social accounting and auditing is one means of developing accountability to stakeholders. In this chapter, the examples of corporations that are involved in social accounting and auditing are mostly those that have defined social and ecological goals to accompany their economic goals. The motivation behind such goals may be to target a niche market of socially conscious consumers, signal leadership in socially responsible business and social accounting trends, or to adopt an enlightened long-term business strategy. Whatever the motivation is for a corporation to define multiple goals, social accounting, auditing and reporting is a way for such businesses to account for their progress in reaching their objectives and to assess their adherence to socially responsible principles. Given their strong profit motive, most commercial organizations' involvement in the social accounting and audit movement is limited to producing social accounts that supplement rather than challenge the conventional financial accounting system.

It would interesting to consider the role that social accounting could play for small businesses. The local scale of small businesses, and thus their vested interest in local accountability for their business practices and activities, are likely motivations for them to engage in social accounting and auditing for the purpose of differentiating themselves from their larger competitors.

The next chapter is a case study in which the circumstances, motivation and process of developing and applying social accounting and auditing principles are explored. The researcher applies the principles of social accounting and auditing (as discussed in this chapter) to develop a 'multiple bottom line' framework for VanCity Credit Union's Alternative Lending Program.

# CHAPTER IV CASE STUDY ON SOCIAL ACCOUNTING AND AUDITING: DEVELOPING A MULTIPLE BOTTOM LINE FRAMEWORK FOR VANCITY'S ALTERNATIVE LENDING PROGRAM

## 4.1 PURPOSE AND CONTEXT OF CASE STUDY

As discussed in Chapters 2 and 3, structural changes to goals and priorities in society are necessary to develop viable overall approaches to well being. Thus only developing and implementing alternative frameworks to assess progress such as social accounting and auditing will not alter society's focus on economic growth. Rather, structural change could be accomplished with multiple and co-ordinated strategies. However, the assessment of social and ecological progress by some organizations signals their inclusion of social and ecological values and can promote commitment to socially responsible conduct.

Most mainstream corporations would not perceive that social accounting and auditing could help them assess 'progress' defined by their profit motivated objectives. It is necessary for those organizations with success that is defined by 'multiple bottom line'—whether they be corporations with self-proclaimed social goals, or those with alternative organizational structures--to be leaders in accounting for and promoting social accountability. Their leadership is important to a) to promote social responsibility and accountability, thereby pressuring peer organizations to adopt similar practices, and b) to advance norms for corporate social responsibilities.

The point has previously been made that organizations associated with the social economy (e.g. credit unions, co-operatives community development loan funds, and community development corporations) are well suited and would benefit from social accounting and auditing format of assessment, since their objective is to deliver a social service and enhance social development. Increasingly, systematic non-financial assessments are being carried out by organizations and programs from the social economy (Aspen Institute 1997). For these types of organizations the social impacts of "'how' and 'for whom', not just 'how much' are important but largely unmeasurable in direct financial terms" (Ekins 1986: 190), thus alternatives to financial assessment are necessary for the organizations' accountability and improving effectiveness.

### 4.1.1 What is a Multiple Bottom Line? How is it Explored in this Case Study?

The multiple bottom line is a concept of accounting for an organization's total impacts (social, ecological, and economic) from the perspective of multiple stakeholders. In general terms, an organization develops a multiple bottom line to work simultaneously on developing both functional accountability for resources and immediate impacts, and strategic accountability for the impact of actions on other organizations and its environment at individual, household and community levels (Edwards and Hulme 1995, Ross and Usher 1986). The development of a multiple bottom line framework is accomplished by developing social accounts.

The purpose of the case study is to explore the practical application of the multiple bottom line concept. A five-step method is applied with the purposed of developing a multiple bottom line framework for the Alternative Lending Program. The information about the Alternative Lending Program that results from the implementation of the five-step method is also presented and analyzed in the case study, as a part of the framework. To clarify, the reasons why a framework for the multiple bottom line is developed in the case study rather than a multiple bottom line itself are as follows: first, the development of a multiple bottom line would require complex and long-term information gathering that is beyond the scope of this study; and second, a principle of the multiple bottom line is its leadership by the organization and its stakeholders instead of an external researcher or evaluator. The framework developed in this study illustrates how the multiple bottom line could be further constructed in the future through the application of the same principles and methods.

### 4.1.2 Why Apply the Multiple Bottom Line to the Alternative Lending Program?

The micro-credit field is increasingly diverse in terms of practising institutions and target groups served. Although the diversity of the field has been cited as one of its strengths, there is a need to learn about how to assess micro-credit programs and how to develop consistently successful programs (Aspen Institute 1997). VanCity has identified the need to assess the progress of its micro-credit program, The Alternative Lending Program, in terms of its social goals and its overall impact, and to develop accountability to multiple stakeholders of the program. The multiple bottom line concept is a tool that could also be applied by organizations with similar needs to the Alternative Lending Program in the micro-credit field and the social economy.

### 4.1.3 Context of Case Study: VanCity

The researcher's multiple bottom line framework addresses the Alternative Lending Program's need --identified by VanCity itself--to develop alternative measures of progress and performance. The researcher was given permission by VanCity to conduct this study. To facilitate this research, VanCity provided the researcher with the following: pertinent information and documents about the Alternative Lending Program, permission to observe specific workshops and training sessions, and contact information to reach potential interviewees from key stakeholder groups of the Alternative Lending Program. (As part of the case study process the researcher identified the stakeholder groups.) The development of this study and its results were the researcher's independent effort. Research for this case study was conducted between February and September 1998, under a signed agreement between the researcher and VanCity to ensure confidentiality of clients of the Alternative Lending Program.

Since the completion of research for this case study, VanCity has consulted with some stakeholders of the Alternative Lending Program through focus groups with clients, in order to develop a survey to be completed by clients about their impacts from the Alternative Lending Program. However, these activities were not carried out in connection or follow-up to this case study. Since the multiple bottom line is a continually evolving concept that requires continuous building and revision, the framework developed in this case study is intended to serve as a recommendation and source of ideas to VanCity as it develops the multiple bottom line concept for the Alternative Lending Program.

### 4.1.4 Organization of the Case Study

This case study contributes to the thesis an exploration of the application of social accounting principles for one organization with defined social goals. First, this study explores the context of the Alternative Lending Program in the social economy and community development, and the program's suitability for social accounting. Second, the method that was undertaken by the researcher to develop the multiple bottom line framework is reported. The method is modelled after NEF's suggested method for social accounting (discussed in Chapter 3). Third, the result--the multiple bottom line framework-- obtained by applying the NEF social accounting method to the Alternative Lending Program is reported and analyzed. Finally, opportunities and challenges are explored for implementing the bottom line, both for the Alternative Lending Program and in general.

## 4.2 CONTEXT AND ORGANIZATION OF THE ALTERNATIVE LENDING PROGRAM

### 4.2.1 VanCity and Corporate Social Responsibility

As discussed in Chapter 3, VanCity has committed itself to corporate social responsibility practices which it defines in practical terms as "doing business the right way"; this implies that VanCity is responsible to its members and staff, respects the environment and supports the communities in which it operates. VanCity's corporate social responsibility initiatives are complementary to its credit union principles. To support its commitment to corporate social responsibility, VanCity offers "CSR (Corporate Social Responsibility) Products and Services" to its members, consisting of loans, investments, and credit. Each is guided by VanCity's CSR principles of investing in the community by enhancing economic self-reliance, environmental responsibility and social justice. The CSR loan products are the focus of this study (VanCity on Internet: www.vancity.com).

Four types of loans are included in VanCity's CSR loan products: Self-Reliance Loans, Peer Lending, Community Investment Deposit Loans, and Women's Enterprise Society Loans[6]. However, only the two micro-credit loan programs are included in this study: Peer Lending Program and Self-Reliance Loans. In this study these two programs are jointly referred to as the Alternative Lending Program. VanCity's Alternative Lending Program provides loans (and limited technical support for Peer Lending Program clients) to micro-entrepreneurs to start up or expand a business in order to create employment for themselves. The two loan programs included in the Alternative Lending Program are outlined below, and the programs' features are differentiated in Table 4.

### 4.2.2 The Peer Lending Program

The Peer Lending Program is a "peer group lending service that provides business credit to full and part time self-employed people" (*Peer Lending Program pamphlet* 1997) to help meet the needs of people who might not have access to traditional business loans. The program is

[6] Women's Enterprise Society Loans are delivered in partnership with the Women's Enterprise Society.

targeted at individuals who have trouble accessing credit because they lack assets or collateral, and/or a credit history. The Peer Lending Program (formerly called communi-K) was started by The Calmeadow Foundation (a non-profit organization) and became VanCity's program in 1996. Peer loans range from $1000 to $5000 for a term between three and twenty-four months.

The Peer Lending Program is based on the Grameen Bank model of peer lending. Clients form groups of four to seven people. Each member of the group borrows funds for their businesses on an individual basis; however, group members are accountable to one another because the entire group must be up-to-date in the payment obligation of their loans before individual members may apply for and receive additional credit. The group assesses one another's loan requests and provides support to one another. Networking and technical assistance are provided to clients as part of the Peer Lending Program (*Loan Fund Policies and Procedures* 1997), VanCity on Internet: www.vancity.com).

**4.2.3 Self-Reliance Loans**

Self-Reliance Loans (maximum loan of $25000, maximum amortization of five years) are extended to people interested in starting or expanding a business to create employment for themselves. To be considered for a Self-Reliance Loan applicants must be a VanCity member in good standing for six months; a graduate or student from a self-employment or entrepreneurship program; or recommended by federal Western Economic Diversification program. The criteria considered for Self-Reliance Loan applications are the applicant's business plan and resume, character references, financial statements (if the business is already in operation) and documentation that demonstrates that the applicant is investing at least 10% in their business. Traditional lending criteria that heavily weigh collateral do not apply. Self-Reliance Loans are negotiated with lenders at VanCity branches (VanCity on Internet: www.vancity.com).

**Table 4 Features of the Alternative Lending Program**

| Features of the Alternative Lending Program | Peer Lending Program | Self-Reliance Loans |
|---|---|---|
| Range of loan amount | $1000 to $5,000 | $5,000 to $25,000 |
| Grouping arrangements | Peer group (4 to 7) | Individual |
| Criteria/requirements for lending decision | Character, trust, peer group approval | Business plan, character, credit history, resume, financial statement for business, 10% investment in business |
| Target group | People with poor or no credit history who live in Greater Vancouver, with entrepreneurial plan | People who want to start up or expand their owner-operated business, with clean credit history |
| Prerequisites and qualifications to be considered for loan | None | VanCity member for 6 months, enrolment or graduation from self-employment or entrepreneurial training program, or reference by Western Economic Diversification Program |
| Venue for loan negotiation and administration | Administered by Peer Lending Program staff | Administered by VanCity branch lenders |

Now that a basic understanding about the organization of the Alternative Lending Program has been developed, the following section outlines the program's basic operation.

### 4.2.4 Model of the Operation of the Alternative Lending Program

Table 5 outlines the general operation of the Alternative Lending Program and shows the resource and material components of the program.

**Table 5 Model of the Alternative Lending Program's Operation**

| Stage of Program | Description of Activities and Impacts |
|---|---|
| 1 **Goals:** Defining the desired outcome of the Program | -Target market has been defined as people with low to moderate income and/or no collateral, women, youth, unemployed, and graduates of a self-employment or entrepreneurial training program<br>-Increase in economic self-reliance and increase in quality of life for clients<br>- Development and increasing quality of community life, community networks<br>-Leadership role and recognition for VanCity in alternative lending |
| 2 **Input:** What resources are required | Key input from:<br>-Alternative Lending program: loan capital, operating funds, staff labour.<br>-Partners: training by self-employment and entrepreneurship programs<br>-Borrowers: investment in the forms of their labour and capital<br>-Western Economic Diversification program: 80% loan guarantee |
| 3 **Activities:** What the program does | -Program provides loan capital, co-ordinates with entrepreneur training programs, advises borrowers through peer support/exchange (Peer Lending Program), and refers some clients to other programs to seek technical assistance. |
| 4 **Output:** Direct products | -Number of participants, number of loans approved, outstanding balances, delinquency, number of new clients, number of new clients and groups (Peer Lending Program), repayment rate, types of businesses created, number of businesses that use VanCity as their primary financial institution, number of clients Peer Lending clients that subsequently access Self-Reliance loans. |
| 5 **Outcome:** Intended benefits and other outcomes | -Increase in self-reliance and increase in quality of life for loan recipients<br>-Quality and development of community life, community networks<br>-Leadership role and recognition for VanCity in alternative lending |

(source: modelled after United Way 1995)

From Table 5 it can be understood that desired outcome of the program is defined in terms of its goals. However, the operation of the Alternative Lending Program is not as simple as Table 5 suggests. External social factors play a significant role in both the operation and outcome of this program, however these cannot be predicted or included in the model (Table 5). The outcome of the program can be understood only through subjective perceptions since outcome is non-tangible and based on individuals' perceptions and experiences; for example, a desired outcome of the Alternative Lending Program is defined as empowerment (Fowler 1995).

Because of the difficulties that can be encountered in assessing outcomes for organizations with social goals, their assessment is often limited to a comparison of the organization's goals with output (Fowler 1995). Prior to this study, the Alternative Lending Program's systemic assessments focused on its output. For example, *VanCity's Social Report 1997* reported on the output of the Alternative Lending Program (including the number and total value of loans extended through the program).

Since intangible outcomes are defined by individual perception and experience Fowler suggests

> "a promising direction for impact assessment appears to lie in the application of framework and methods which allow all interested parties [i.e. stakeholders] to have a say in defining means and ends. . . Cause and effects are negotiated, which are reasonably assumed to have an influence on both progress and impact" (1995).

Social accounting and auditing principles mold to Fowler's type of thinking: stakeholders that are impacted by the program become involved in the program assessment by defining the success of the program in terms of their own objectives and issues. The involvement of stakeholders is aimed at including stakeholders' objectives and issues in the organization in order to develop accountability.

VanCity has been taking steps toward identifying outcomes of the Alternative Lending Program by consulting with clients of the program; some focus groups with microentrepeneurs (clients) were held during the social audit process to begin to scope program outcomes. Also, as mentioned earlier, since the completion of research for this case study the Alternative Lending Program has held focus groups with Peer Lending Program clients to begin identifying outcomes of the program.

### 4.2.5 Alternative Lending and CED

CED encompasses a broad variety of initiatives and approaches, which have in common the strategy for development and change, in order to address existing flaws in mainstream approach to development and institutional structures. Integral to CED is a decentralized approach to development that depends on local capacity building, and a recognition of the need to balance four interrelated aspects of a community in its development: economy, society, culture and ecology. An important component of each of these four dimensions of community development is entrepreneurial development, in which micro-credit plays an integral role (Rowcliffe and Trepanier 1995).

Small businesses are a significant component of the economy in Canada; over 15% of Canadians are self-employed. Although self-employed people may face higher risks and stresses than those employed by others, they do have potential to earn higher incomes (Krahn and Cabaj 1997). The potential of self-employed people to succeed in micro-business is often hindered by their lack of access to the banking sector and a lack of formal business training. The Alternative Lending Program is designed to remove these barriers by providing access to credit and technical support for entrepreneurs.

In several studies the success of micro-enterprises has been significantly attributed to the credit and technical assistance offered by micro-credit programs (Harold 1997). Recent impact studies have revealed that the positive outcomes of micro-credit for borrowers include not only employment and income generation, but also increased self-reliance, development of business skills, enhanced community participation, and access to more conventional sources of financing (e.g. in the formal economy) (Himes and Servon 1998). From a community development perspective, micro-credit balances economic activity and social equity in communities by enhancing the development of self-reliance and community networks through entrepreneurship (Ross and Usher 1986).

As discussed in the previous section, the Alternative Lending Program has not systematically measured its progress and performance based on the outcomes that it aims to achieve, such as those just mentioned. Systematic measurement of performance through a multiple bottom line would improve the understanding, and thus the effectiveness, of the program's process and outcomes. The multiple bottom line for the Alternative Lending Program could also develop accountability for the Program's goals to "enhance the economic, social and environmental well being" of individuals and communities (VanCity on Internet: 'www.vancity.com').

The development of the multiple bottom line by the Alternative Lending Program could also benefit other CED organizations by providing an example of a tool that could be used by micro-credit programs and other organizations in the social economy to assess outcomes and improve accountability. The next section in this case study documents the process that was undertaken by the researcher to develop a multiple bottom line framework for the Alternative Lending Program.

## 4.3 DEVELOPING THE MULTIPLE BOTTOM LINE FRAMEWORK IN 5 STEPS

The researcher's method for developing the multiple bottom line framework in this case study is modelled on NEF's social accounting and auditing method (discussed in Chapter 3) which has been used to develop several organizations' social accounts and audits, including VanCity Credit Union's 1997 Social Audit. The NEF model was selected as a method for building the multiple bottom line for the Alternative Lending Program for a few key reasons:

- First, in the NEF model of social accounting and auditing stakeholders' issues and objectives play a major role in the defining indicators of progress and performance. The researcher valued this participatory approach to social accounting over most approaches to assessment that are based on an external assessor's perspective.
- Second, since VanCity has already employed the NEF method of social accounting and auditing in its social audit, the use of a consistent model ensures continuity with VanCity's assessment processes.
- Third, information about the NEF method was available to guide the researcher's work. The researcher attended a training workshop led by Simon Zadek, the Executive Director of NEF (February 1998) entitled *Building Organizational Accountability*, during which the social accounting and auditing method was discussed and reviewed. The workshop was focused on non-profit and social organizations' application of social auditing because the attendees represented such organizations; this training convinced the researcher that the NEF method is applicable for organizations with social goals, and that the social accounting process could be 'scaled down' to suit human resource, budgeting and other practical considerations for such organizations. Also, NEF has published background information and rationale about its social accounting and auditing method (Zadek et al. 1997) in addition to a step-by-step guide to social accounting that is targetted at small and non-profit organizations (Pearce et al. 1996); both types of written information were useful guides for the researcher.

The Alternative Lending Program's two programs (The Peer Lending Program and Self-Reliance Loans) are considered within a combined multiple bottom line framework since they have intertwined goals, administration, target groups and issues. Table 6 is an overview of the five steps that were undertaken by the researcher to develop a multiple bottom line framework for the Alternative Lending Program. Following the brief overview in Table 6, the researcher's process undertaken for each of the five steps is expanded. It is important to note that the purpose of developing this framework is to demonstrate and explore the process of developing a multiple bottom line. In order to provide more complete and accurate information for assessment, further development of the multiple bottom line would need to be undertaken by the Alternative Lending Program staff in co-ordination with stakeholders.

**Table 6 Researcher's Process for Developing Multiple Bottom Line for the Alternative Lending Program**

| Step | | Method |
|---|---|---|
| 1 | Identify Alternative Lending Program's objectives | -Review documents stating program objectives<br>-Discussions with Alternative Lending Program staff |
| 2 | Identify key stakeholder groups | -Define key stakeholder groups based on NEF criteria |
| 3 | Define stakeholder groups' issues and objectives for the Alternative Lending Program | -Interview a small sample of individuals from some key stakeholder groups<br>-Review documents provided by stakeholders and VanCity<br>-Participant observation of Peer Lending Program clients' networking session |
| 4 | Define indicators in terms of the Alternative Lending Program's objectives, stakeholders' objectives and issues, benchmark studies | -Develop indicators based on Alternative Lending Program's goals and issues defined in step 1, stakeholder groups' goals and issues defined in Step 3, and impact studies from comparable micro-credit program (Himes and Servon 1998). |
| 5 | Recommend how to develop social accounts | -Conduct inventory of Alternative Lending Program's sources of data, recommend additional data sources<br>-Formulate content for a survey of Alternative Lending Program clients to gather data for social accounts |

### 4.3.1 Step 1: Identify Alternative Lending Program's Objectives

To identify the Alternative Lending Program's vision and objectives, the researcher investigated the program objectives that are published in the promotional materials and documents for the program, and on VanCity's Internet website. The researcher also discussed and verified the program objectives with Alternative Lending Program staff. Stakeholder groups' objectives about the Alternative Lending Program are also an essential part of developing the multiple bottom line framework; these were determined in Step 3.

### 4.3.2 Step 2: Identify Key Stakeholder Groups

The researcher identified the Alternative Lending Program's key stakeholder groups based on the following criteria proposed by NEF (Zadek 1998, Pearce et al. 1996, Zadek et al. 1997): those who affect and are affected significantly by the program, those who are core to the organization's objectives, and those with whom the Alternative Lending Program frequently interacts. Four key stakeholder groups were identified, based on their high degree of involvement and impacts with the Alternative Lending Program. Although several stakeholder groups met the criteria, the multiple bottom line framework-building process was limited to four key stakeholder groups. This means that only four stakeholder groups' issues and objectives for the Alternative Lending Program are included in the multiple bottom line framework. As suggested by Zadek (1998), concentrating on a few key stakeholders in the initial cycles of social accounting helps to manage this process. Additional stakeholder groups should be added to the multiple bottom line framework in the future.

### 4.3.3 Step 3: Identify Key Stakeholder Groups' Issues and Objectives for the Alternative Lending Program

The Alternative Lending program has objectives that support its own interest: a leadership role in alternative lending, and developing credibility of the program and VanCity's commitments for corporate social responsibility. Stakeholder groups' objectives and issues pertaining to the program are also a key part of developing the multiple bottom line framework. By identifying stakeholders' issues and objectives for the program, indicators that are important and relevant to stakeholders can be set, thereby infusing stakeholders' perspectives in the Alternative Lending Program's concept of progress.

The researcher identified the four key stakeholder groups' objectives and issues through a few methods:

1. Semi-structured interviewing (based on a standard set of questions): six people from the VanCity branch staff and management stakeholder group (August 1998), four people from the Program Partners stakeholder group (August 1998), and discussions and meetings with three people from the VanCity Alternative Lending Program staff stakeholder group (February, May, July 1998).

2. Participant Observation at two workshops pertaining to the Alternative Lending Program: a staff training workshop for VanCity branch staff and management about the Alternative Lending Program (March 1998), and a networking session for Peer Lending Program clients that was led by Peer Lending Program staff during which clients discussed and solved technical difficulties encountered in their businesses (April 1998).
3. Review of documents pertaining to stakeholders and the Alternative Lending Program included monthly reports, promotional materials and published documents provided by Alternative Lending Program staff; impact studies of other micro-credit programs in North America; and published information provided by stakeholders.

Table 7 outlines the methods employed by the researcher to identify each of the four key stakeholder groups' main objectives and issues pertaining to the Alternative Lending Program. More consultation with stakeholder groups should be undertaken in future development of the multiple bottom line to gain more in-depth knowledge of stakeholder groups' issues and objectives pertaining to the Alternative Lending Program. The scope of this is outside the development of this general multiple bottom line framework, since a significant investment in resources, time and expertise would be required to conduct these interviews, focus groups and surveys.

**Table 7 Researcher's Methods for Determining Stakeholders' Objectives and Issues**

| Stakeholder | Sources and Methods of Research |
|---|---|
| Alternative Lending Program clients | -Participant observer at a workshop and networking session for Peer Lending Program clients where 12 clients discussed technical difficulties experienced in their businesses (April 1998)<br>-Reviewed published information and articles about clients' businesses;<br>-reviewed studies on assessing impacts of other micro-credit programs<br>-reviewed 1996 impact study of Peer Lending Program (by Calmeadow) |
| VanCity branch management and lending staff | -Interviewed 6 branch staff including branch managers, financial services managers, and lenders (August 1998)<br>-Participant observer at a training workshop on Alternative Lending Program for branch lenders (March 1998)<br>-Reviewed records and documents on lending procedures |
| Program partners (Self-Employment (SE programs) | -Interviewed program directors from 4 SE entrepreneurship training programs (August 1998)<br>-Reviewed documents on SE programs |
| Alternative Lending Program staff | -Discussed issues pertaining to Peer Lending Program with staff and management<br>-Reviewed documents and records pertaining to the Alternative Lending Program that were provided by staff |

### 4.3.4 Step 4: Define Indicators

As discussed previously (in Chapter 2), social indicators are a tool for assessing progress and performance. Structural change theorists advocate developing social indicators for the assessment of progress at various levels in society: national accounts, community accounts and organizational accounts. It is important to note that indicators are 'signposts' that describe current conditions; the usefulness of the information provided is dependent on the appropriateness of indicators that are selected and the availability and reliability of data for the indicators.

The researcher developed a set of indicators for the Alternative Lending Program (shown in Table 11). The indicators address the issues and objectives of both the Alternative Lending Program (identified in Step 1) and its key stakeholder groups (identified in Step 3). Indicators that were developed for a micro-credit program in the United States were also referenced in developing this set of indicators (Himes and Servon 1998). Each indicator shows the program's performance in relation to the program's objectives and issues.

Indicators can be differentiated according to which aspects of progress and they address: input indicators show what has been invested into the program, output indicators show the 'activity' of the program, and outcome indicators show longer-term impacts and results of the program.

To assess progress of the Alternative Lending Program, two types of outcome indicators have been developed by the researcher: economic indicators (e.g. income and employment), and social indicators (e.g. role in the community, quality of life, self-esteem). Some common indicators of micro-credit clients' outcomes are shown in Table 8, which was designed by ACCION, an American micro-credit organization (Himes and Servon 1998). Many of these indicators are replicated in the set of indicators developed by the researcher for the Alternative Lending Program.

**Table 8 Examples of Key Outcome Indicators for Clients of Micro-Credit Programs**

| **Level of impact** | **Indicator of Economic Outcome** | **Indicator of Social Outcome** |
|---|---|---|
| Individual | -Profits, equity | -Pride, control, self-reliance |
| Household/family | -Take home income, total household income | -Schedule, self-reliance, quality of life |
| Community | -Full-time equivalent jobs created, types of jobs | -Quality of employment generated, participation in community |

(Source: Himes and Servon, 1998)

Relationships between economic and social indicators (e.g. those shown in Table 8), and relationships between levels of impact (individual, household/family, and community) are important to consider. The inter-relationship of outcomes is acknowledged within the Alternative Lending Programs objectives to improve well being for both individuals and community. The program acknowledges the correlation between economic and social well being, and between individual and community outcomes. For example, individuals profiting financially from their business are likely to feel pride and self-reliance. Also, although individual levels of impact (individuals, households and community) are differentiated in the table, these levels are also interrelated. For example, an individual's profits are closely related to their household's income as well as the quality of job(s) created in the community.

### 4.3.5 Step 5: Recommend How to Develop Social Accounts

As discussed in Chapter 3 (and explored by Pearce et al. 1996), social accounts are a 'data bank' about performance and progress that are focused on the set of social indicators that has been developed in Step 4. Some data for social accounts can be gathered from sources of information that are already collected by VanCity and the Alternative Lending Program, e.g. a monthly tally of loans. Additional data should be gathered by refining some sources that are already used for gathering information, e.g. an intake survey of applicants to collect information that specifically addresses data requirements for the particular indicators that have been defined. Additional information should also be gathered. Since many of the Alternative Lending Program's outcomes are non-tangible and subjective, they are necessarily understood through stakeholders' perceptions, which are gathered through interviewing and surveying. In addition, benchmark data from other organizations (e.g. other credit unions and micro-credit organizations) is required to compare the Alternative Lending Program's performance. (Pearce et al. 1996)

The researcher did not collect data for the social accounts because this was beyond the scope of this multiple bottom line framework. The organization and development of social accounts is most effectively initiated by the Alternative Lending Program staff since they are familiar with existing sources of data and the feasibility of mobilizing other sources of data. However, the researcher's contribution is to identify potential sources of data for the social accounts. By reviewing documents and interviewing stakeholders (Alternative Lending Program staff in particular) throughout this five-step process, the researcher learned about some of the current and potential sources of data.

Many of the indicators are focused on clients' outcomes since they are the intended beneficiaries of the program. Therefore, an important source of data for the social accounts would be a survey of clients' outcomes. The researcher formulated draft content for such a survey; each of the questions in the survey is designed to provide data for the indicators (developed in Step 4). However, the researcher appreciates that clients should ideally be involved in designing this survey to ensure inclusion of issues they define as important. Since the completion of this research (although not in connection or follow-up to this research) VanCity has started to develop a survey in co-operation with stakeholder focus groups.

## 4.4 THE MULTIPLE BOTTOM LINE FRAMEWORK FOR THE ALTERNATIVE LENDING PROGRAM: 'RESULTS' OBTAINED FROM STEPS 1 TO 5

### 4.4.1 From Step 1: Identification of Alternative Lending Program's Objectives

The Alternative Lending Program's objective is to meet community challenges: unemployment, disempowerment, and resulting inability for some groups to access credit. In October 1997 VanCity formulated a "statement of purpose" for the Alternative Lending Program:

> VanCity's Alternative Lending Program helps entrepreneurship thrive by providing financial products and services to those who have difficulty accessing them through normal channels. The Alternative Lending Program promotes member self-reliance as they create new wealth and new jobs that enhance their communities. (VanCity *memorandum* 1997).

The target market for the Alternative Lending Program is people with low to moderate income and/or no collateral, including women, youth and unemployed; graduates of self-employment training programs; and referrals from Western Economic Diversification. The Alternative Lending Program is designed to benefit individuals through self-reliance, and the community through enhanced networks and employment, in keeping with VanCity's organizational mandate to "serve as a catalyst for the self-reliance and economic well-being of our members and the community" (VanCity on Internet: www.vancity.com).

From the Alternative Lending Program staff, the researcher learned that the program intends to contribute to entrepreneurs' capacity to develop their businesses; this is expected to not only provide income, but also to develop individuals' self-reliance as well as communities' employment opportunities and networks. The Alternative Lending Program is a community development strategy that copes with the inequalities of the current economic and social system on a local level by empowering individuals and thus developing self-reliance in communities.

### 4.4.2 From Step 2: Identification of Key Stakeholder Groups

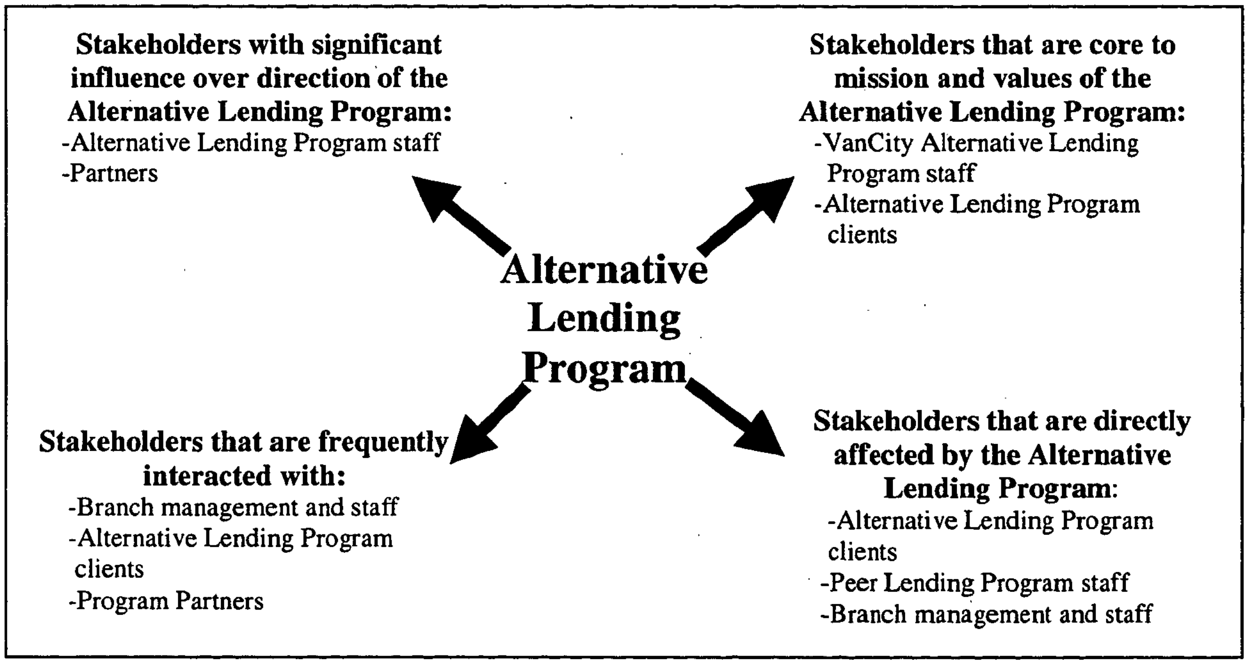
Four key stakeholder groups were selected to be included in the multiple bottom line framework. The stakeholders are identified as follows:

- **Clients** borrow funds for their business and receive technical assistance.
- **VanCity branch and lending staff** consider, approve and administer Self-Reliance Loans.
- **Program partners** train potential clients of the Alternative Lending Program in Self-Employment training programs.

- **Alternative Lending Program staff** manage the operations and strategy of the program. Their responsibilities include administering the Peer Lending Program (lending and technical assistance), reporting to VanCity, communicating with partners, and promoting the program.

These key stakeholders are shown in Figure 3. Many stakeholders have not been included in the multiple bottom line framework at this stage: families and employees of Alternative Lending Program clients, individuals that were declined loans from the Alternative Lending Program, and other VanCity members. These stakeholder groups should eventually be included to improve the comprehensiveness of the multiple bottom line.

**Figure 3 Criteria and Selection of Key Stakeholders of the Alternative Lending Program (From Step 2)**




(source: modelled after Zadek et al. 1997)

### 4.4.3 From Step 3: Identification of Key Stakeholder Groups' Issues and Objectives for the Alternative Lending Program

The four key stakeholder groups' (clients, VanCity branch management and staff, program partners (entrepreneurial training programs) and Peer Lending Program staff) objectives and issues pertaining to the Alternative Lending Program are discussed below, followed by Table 10, which summarizes the objectives and issues.

#### 4.4.3.1 Clients

Clients' self-reliance has been identified as a main objective of the Alternative Lending Program, thus they are the key beneficiaries. Each client has a unique experience and perception of the Alternative Lending Program. The client stakeholder group is large and dispersed; it is comprised of past and current clients of the Peer Lending and Self-Reliance Loans Programs. However, the issues documented below are those of Peer Lending Program clients only. The information was gathered from a review of published documents about clients' businesses, and from participant observation at a Peer Lending Program clients' networking session on strategies for solving business difficulties (April 1998).
Since the client stakeholder group is so large and dispersed, it is proposed that a survey of clients be conducted to learn about their objectives and issues for the program (discussed in greater detail in Step 5).

**Clients' Issues**

**Technical Assistance**

Some Peer Lending Program clients expressed concern about their ability to handle the business operations involved in the vocation they wish to pursue. A main issue of concern about the Peer Lending Program was the lack of technical assistance they receive. Examples of these concerns are finding time and acquiring skills in a one-person business operation to do book keeping tasks, and wanting to hire someone to help out with the business yet being concerned about the Workers' Compensation Board's (WCB) and others' regulations for hiring employees. Several Peer Lending Clients want assistance about how to compete in the marketplace. They are having difficulties because the underground economy is prevalent, and because large firms can afford lower selling prices due to higher volumes of sales.

**Self-Reliance**

VanCity is the only source of micro-credit in the region since banks will not consider entrepreneurial business plans; this renders aspiring entrepreneurs reliant on VanCity for support. Some clients are concerned about unstable income, and need to supplement fluctuating income from their business with a more stable source of income (e.g. to afford to fund kids' college education).

**Process**

Clients mentioned that it takes a lot of time to participate in the Peer Lending Program because there are a lot of "hoops to jump through" for group meetings, agreements, etc. However, many clients find the support of their group members encouraging, in an otherwise potentially isolating experience as a microentrepeneur.

### 4.4.3.2 Branch Management and Lending Staff

This stakeholder group consists of VanCity branch management (managers and financial services officers) and branch lenders. Branch management and staff are responsible for negotiating and administering Self-Reliance Loans. However, they have less involvement with the Peer Lending Program; they make some referrals to the Peer Lending Program and they receive payments on Peer Lending Program loans.

The issues outlined below were gathered from interviews with six individuals (managers, financial services managers and lenders from various VanCity branches in Greater Vancouver) (conducted in August 1998) and through participant observation at a branch staff training session on the Alternative Lending Program (March 1998). The members of this stakeholder group who were consulted defined the following two main objectives for the program: to deliver the Alternative Lending Program as efficiently as possible, which pertains to the design of the product as well as lending staff's commitment; and to ensure that the Program enhances VanCity's reputation in the community.

**Branch Management and Lending Staff's Issues**

**Responsibilities for the Alternative Lending Program**

The Alternative Lending Program requires that lenders form different relationships, make different types of decisions and develop different skills than those required in conventional lending. One branch lender said "all the rules are contrary to other lending that I do." Table 9 contrasts the characteristics of standard with Alternative Lending Program products.

**Table 9 Characteristics of Conventional and Alternative Lending Products**

| Characteristics of Standard Loan Products | Characteristics of Alternative Lending Program Products |
|---|---|
| Approval criteria based on financial considerations | Custom cash flow planning |
| Prevention of significant risk | Irregular risk management, and scarce information with which to analyze potential businesses. |
| Avoidance of long term customer support | Support, encouragement and flexibility |

## Criteria for Self-Reliance Loans

### Business Plan

According to one Self-Reliance Loans lender, despite the role of the applicant's character in Self-Reliance Loans criteria, "There is no choice but to rely quite heavily on the business plan. Even if the lender believes in the [applicant's] personality and the intent, the lender still has to defend the business plan to the manager to get approval". A branch manager expressed similar emphasis on the importance of the business plan: "It's not a donation. Lenders need to look at it as a business loan first."

The qualities of a good business plan are professionalism, authorship of the plan and knowledge of competition in their line of business. All lenders noted that there is a dramatic range in quality of the business plans they review. Five out of six interviewees correlated the incidence of high quality business loans with SE Program graduates, attributed either to the training that entrepreneurs receive from the SE program or the skills that those entering the SE program already possess. One lender said that the some business loan applications for Self-Reliance Loans are of higher quality than applications received for larger mainstream business loans.

### Character

Consideration of Self-Reliance Loans applications is mostly based on character because there is no requirement for conventional collateral. One branch manager commented that "Lending $15,000[7] [Self-Reliance Loans maximum amount] to nice people was initially scary, however out of a lender's hat you can see that it makes sense." Four of the interviewees mentioned that they get a gut feeling of trust or distrust for applicants, and their decision on the loan is largely

[7] Note that the maximum Self Reliance Loan amount has been increased from $15,000 to $25,000 as of January 1, 1999.

based on this. However, several interviewees noted that "even if the client's character is OK, the client could be poorly business informed", indicating that the quality of the business plan is still very important.

One lender noted that "Often a Self-Reliance Loan is someone's last hope to get his or her business off the ground". However, it was also noted that this does not necessarily make them a good candidate for a business loan.

**Training for the Alternative Lending Program, Confidence and Motivation**

Arising from the unique characteristics of Alternative Lending Program lending, as opposed to mainstream business lending, a manager noted that Self-Reliance Loans demand a different way of communicating with clients, which makes some lenders uncomfortable. Many lenders were trained to be conservative lenders; thus they find it difficult to make loans that are not based on conventional criteria. A branch manager stated, "Some lenders are concerned that the Alternative Lending Program will force them to approve a loan that they are not comfortable with." However, another branch manager noted that since the guarantee from Western Economic Diversification (WED) for loan losses has been solidified, lenders have started approving a lot more loans. (WED is an 'arms length' federal government agency that guarantees up to eighty per cent of loan losses.)

An experienced lender for Self-Reliance Loans said, "As a lender you must have faith in your own trust...a few [loans] will go bad and it's not your fault". All of the lenders that were interviewed commented that only some lenders have the ability and inclination to do Self-Reliance Loans. One lender said "Lenders can act as mentors to one another to train for the Alternative Lending Program, but it will be effective only if the trainee's personality is right to start".

**Attitude and Responsibilities**

Four of the interviewees note that the paperwork for the Alternative Lending Program is time consuming and unclear. It is especially time consuming for lenders who do not frequently administer Self-Reliance Loans because they need to refresh themselves on the procedure each time. Because of the complicated nature of the Alternative Lending Program procedures, in one branch that accounts for a significant proportion of Self-Reliance Loans, the branches' responsibilities for Self-Reliance Loans has been informally assigned to one lender who has gained experience and efficiency at Self-Reliance Loans. One interviewee said that lenders do not want to spend a lot of time administering Self-Reliance Loans because there is a perception that they do not make money for the credit union.[8] Interviewees all noted that they do not receive many inquiries about the Peer Lending Program. When appropriate, interviewees said they would refer clients to the Peer Lending Program but some doubted that it would occur to their colleagues in the branch to refer clients to the Peer Lending Program.

Four interviewees noted that the branches' activity in the Alternative Lending Program comes from motivation within the branches. Branches' motivation is directly related to the motivation and leadership of lenders, themselves and managers. To illustrate, one interviewee noted that a colleague (lender) who was interested in doing more Self-Reliance Loans in their branch was "politely deterred by the management". Three interviewees noted that some branches have had a bad experience with Self-Reliance Loans, and they have consequently become cautious about doing any more Self-Reliance Loans. "Word about loans [that have] gone bad gets around the branches quickly and lingers" according to one interviewee.

The attitude of an entire branch toward Self-Reliance Loans can be spoiled by one bad incident. One interviewee emphasized that the branches need to feel more supported by head office to do Self-Reliance Loans, citing an example of an appeal process (administered from head office) for a client who was declined for Self-Reliance Loan. The appeal process was time consuming, and frustrating for the branch staff. This process has "tainted" the branch staff's impressions of the Alternative Lending Program.

### The Future of Alternative Lending Program

Two interviewees discussed the need for more communication within VanCity and with other parties involved in the Alternative Lending Program in order to strategize about effective delivery of the program. A manager noted that transferring strong ownership of the Alternative Lending Program away from a "VanCity financial product", toward community stakeholder type of ownership would contribute to the success of the program.

[8] Despite this perception, the credit union has found that Self-Reliance loans are in fact profitable.

Despite concerns about the delivery and design of the Alternative Lending Program, interviewees support the Alternative Lending Program's products for a variety of reasons:

- Alternative Lending Program fits into VanCity's relationship building strategy.
- "Even regular loans go beyond the numbers with VanCity. It's important to have an alternative for members who cannot access other loans".
- The niche for Alternative Lending Program is expanding: downsized people, early retirees, and young people with no opportunity. VanCity should link up with the idea of corporate contracting; employ downsized people in their field of expertise. VanCity could build relationship with corporate outplacement people to promote the Alternative Lending Program.
- The Alternative Lending Program is good for certain communities. "A business background or at least [business] aptitude is needed to succeed. It's not for everyone, socially or culturally".

**Outcomes of the Program for Alternative Lending Program Clients**

Most of the interviewees from the VanCity branch staff stakeholder group believe that the Alternative Lending Program "works for a lot of people because it improves their quality of life". However, interviewees noted that a lot of clients have technical difficulties, such as book keeping and marketing. Two lenders expressed that they try to facilitate open communication with clients, but feel that they are a client's last resort for advice because of the stiff institutional relationship that inevitably exists between borrowers and lenders. According to one manager's experience, the reason for the failure of most micro-businesses is that the entrepreneur "runs out of steam". Interviewees noted that common difficulties among Self-Reliance Loans clients are fear of not meeting financial goals, under-production of cash flow, and problems with bookkeeping and marketing.

#### 4.4.3.3 Program Partners

This stakeholder group comprises Self-Employment Programs (SE Programs) of Human Resources Development Canada. This training program is designed to assist people receiving Employment Insurance (EI) to create their own employment. SE Programs assist participants to develop their business plans, assess business potential, and provide business support to participants. VanCity's Alternative Lending Program (mostly Self-Reliance Loans) is the primary lender for entrepreneurs who have graduated from SE Programs. Also included, Western Economic Diversification (federal program that guarantees Alternative Loans up to 80%) refers some of its applicants to the Alternative Lending Program. The issues from this stakeholder group were gathered from interviews (conducted in August and September 1998) and from a review of documents describing the programs. A synthesis of this group's objectives for the Alternative Lending Program is as follows: to develop lending criteria that is clearly understood and thus attainable for applicants who heavily rely on the loan, and to treat the loan clients with respect, fairness and professionalism in a consistent (one interviewee said "predictable") manner throughout the Alternative Lending Process.

**Partners' Issues**

**Technical Assistance**

Partnership programs with technical assistance providers are needed, according to consulted Program Partners. Lenders will always be regarded as representatives of a financial institution; this association prohibits them from assuming the role of a business counsellor. According to one SE Program director, "It's risky to lend money to new business people without some sort of technical assistance", "It's not a lot of money to VanCity, but it's a lot of money to those people".

**Risk**

SE Program directors are impressed that VanCity will take risks, while wealthier big banks will not. They attribute many of their graduates' businesses getting off the ground to the Alternative Lending Program. However, interviewees do not make a lot of referrals to Peer Lending Program because the amount of the loan required is too large. One interviewee mentioned that they only refer graduates who do not want to get into debt, or those who are willing to take the time to invest time in the Peer Lending Program (e.g. group meetings and agreements). Most clients are instead referred to the Self-Reliance Loans Program since the value of loans given is larger.

**Program Delivery**

Program partners think that there is a need to train branch staff to be familiar and receptive to the Alternative Lending Program. Each of the SE program directors and instructors recommends to their clients that they apply for loans at particular VanCity branches where they are confident that lenders are receptive to the Alternative Lending Program. Partners perceive that there is a mixed reputation about the Alternative Lending Program in branches. According to one interviewee, "many branches don't have the guts and imagination for alternative lending"; perhaps it would be best to only include branches that are interested in Alternative Lending Program, or to instead create an alternative lending centre to administer loans in partnernership with the Peer Lending Program.

### 4.4.3.4 Alternative Lending Program Staff

Alternative Lending Program staff stakeholder group includes to the management of VanCity that delivers and manages the Alternative Lending program. The preliminary issues defined by this stakeholder group were gathered from discussions and meetings (March, May, June 1998) and reviewing documents. The Alternative Lending Program staff want to fulfil the program's objectives. They describe increasing clients' quality of life and self-reliance as their key objective. Alternative Lending Program staff also noted that developing VanCity's profile in the community, and keeping or improving the credit union's reputation as important.

**Alternative Lending Program Staff's Issues**

**Program design and delivery**

The Peer Lending Program is administered through a separate branch office, rather than integrated through VanCity's branch system as Self-Reliance loans are. Peer Lending Program staff expressed concerned bout the relationship of Peer Lending Program and the rest of VanCity. It is perceived that there is little support and promotion of Peer Lending Program throughout VanCity branches. In some cases potential clients that have asked about Peer Lending Program have been misinformed or discouraged from pursuing the program further.

Table 10 summarizes the four key stakeholder groups' key objectives and issues that were identified by the researcher and described above. Note that the issues are categorized in the table according to whether they relate to a) the delivery of the Alternative Lending Program, or b) the outcome of the program or loan product itself.

**From Step 3: Identify Key Stakeholder Groups' Issues and Objectives for the Alternative Lending Program**

**Table 10 Summary of Stakeholders' Issues and Objectives Pertaining to the Alternative Lending Program**

| Stakeholder | Stakeholders' Objectives for the Alternative Lending Program | Stakeholders' Issues with the Alternative Lending Program | |
|---|---|---|---|
| | | Issues related to process of delivering and administering the Alternative Lending Program | Issues related to the loan product and outcome |
| Clients | -Improve quality of life<br>-Increase self-reliance | -Need technical assistance<br>-Benefits from the 'group' experience in Peer Lending (positive and negative) | -Relationship and reliance on VanCity for loan<br>-Competition and stability of micro-businesses in the economy |
| VanCity Branch Staff and Management | -Enhance community reputation for VanCity through the Alternative Lending Program<br>-Professionally and efficiently deliver the Loan Product | Regarding responsibilities for Program lending:<br>-dealing with unique characteristics of Alternative Lending Program and ambiguity of loan criteria; lenders need confidence and support to approve loans; problems with administrative ambiguity and hassles in administering loans<br>-Develop effective program design and delivery system for Alternative Lending Program<br>-Meeting clients' needs for technical assistance to succeed in micro business | -Motivation to implement Alternative Lending Program and reputation of the Alternative Lending Program among VanCity staff<br>-Security and arrangements for delinquent loans (Western Economic Diversification guarantee, lenders' responsibility) |
| Partners: SE and Entrepreneurship Programs | -Develop clear criteria for loans<br>-Treat applicants and clients respectfully | -Structure of delivery for Alternative Lending Program: are there alternatives to branches administration of loans?<br>-Concerns about inconsistent service for Alternative Lending Program among and within branches | -Technical assistance needed for Alternative Lending Program clients<br>-Accessibility of credit for Self Employment Program graduates |
| Peer Lending Program Staff | -Maximize VanCity's reputation<br>-Maximize clients' self-reliance and quality of life | -Exploring options for delivery of Alternative Lending Program<br>-Effectiveness of branch referral system for Peer Lending Program | -Relationship of Peer Lending Program with VanCity<br>-Reputation and promotion of Alternative Lending Program in community |

### 4.4.4 From Step 4: Definition of Indicators

Table 11 shows a set of indicators of the Alternative Lending Program's performance that were developed by the researcher for the Alternative Lending Program's multiple bottom line framework. The indicators are based on the following sources:

- The Alternative Lending Program's objectives and issues that were identified in Step 1;
- The four key stakeholder groups' objectives and issues that were defined in Step 3; and
- Benchmarks with other micro-credit programs that were identified in a review of documents

In the first column of Table 11 the indicators defined by the researcher are stated. In the second column identifies the key issue or objective (identified in Steps 1 and 3) to which each indicator is related. In the third column the source of data for the indicators is indicated; this refers to the social accounts (discussed further in Step 5 in this process). The indicators that are presented in Table 11 are grouped according to the aspect of the Alternative Lending Program to which they pertain: output (measuring activities of the program) or outcome (measuring impacts of the program).

The indicators of progress will continue to evolve in the future to reflect changing goals and issues of the Alternative Lending Program and its stakeholders. However, in the future, stakeholders should be actively involved in defining social indicators that are important and relevant to them; representative stakeholders could be assembled in focus groups to develop indicators based on their objectives and interests. In developing this framework the researcher did not undertake in-depth consultation with stakeholders to develop indicators because it was outside the scope and emphasis of this study.

**From Step 4: Defining Indicators**

**Table 11 Indicators for the Alternative Lending Program's Multiple Bottom Line Framework and Sources of Data for Indicators**

| Indicator | Related key objective or issue | Source of Data in Social Accounts |
|---|---|---|
| **Output indicators** | | |
| -Lenders' self assessed motivation and confidence to do Alternative Loans after staff training on Alternative Lending Program | -Branch staff's motivation and opinions of Alternative Lending | -Survey evaluation of Alternative Lending Program training sessions (survey already administered by Alternative Lending Program) |
| -Per cent increase in number of lenders' Self-Reliance Loans after staff training on Self-Reliance Loans Program<br>-Percent increase in number of referrals from lenders' branch to the Peer Lending Program after staff training on Self-Reliance Loans Program | -Branch staff motivation for Alternative Lending<br>-Distribution of Alternative Lending Program activities among branches | -Record of new Alternative Lending Program loans (filed monthly by Alternative Lending Program staff) |
| Each of the following indicators is to be disaggregated by branch for Self-Reliance Loans, and by total amount only for Peer Lending Program:<br>-Number of clients: active borrowers, new borrowers, cumulative borrowers<br>-Number of new loans per month<br>-Amount loaned ($) per month<br>-Average loan amount ($)<br>-Ratio of administration fees to loan amount<br>-Delinquency rate | -Development and growth of Alternative Lending Program over time | -Output records for Self-Reliance Loans and Peer Lending Program<br>-Financial records (recorded monthly) |
| **Outcome indicators** | | |
| -Frequency, type and source of press coverage on Alternative Lending Program | -Reputation of Alternative Lending Program<br>-VanCity's leadership in micro-lending | -Press clippings (to be gathered by Alternative Lending Program staff) from media sources and journals |
| -Target market served (income level, characteristics)<br>-Reason clients applied to Alternative Lending Program<br>-Type of business experience or training before starting this business<br>-Purpose for the loan(s) (start up, marketing, etc.)<br>-Total number of loans received by client from Alternative Lending Program, total number of conventional loans | -Serve target market | -Intake survey of clients<br>-Proposed client survey |

| Indicator | Related key objective or issue | Source of Data in Social Accounts |
|---|---|---|
| **Outcome Indicators** | | |
| -Survival of business (# years; first 3 years is most critical)<br>-Growth of business (dollars, # employees)<br>-Change in client's take-home income (from previous occupation, from business start to present)<br>-Total Amount of client's debt | -Client's economic self-reliance | -Proposed client survey |
| -Reason why client decided to start own business<br>-Attainment of client's business goals (client self-determined)<br>-Client's feeling of control over business and personal life if business has grown<br>-Client's satisfaction with income and business (client self-determined) | -Client's self-reliance, pride, control | -Proposed client survey |
| -Number of persons in household on employment insurance, number of persons that are dependants<br>-Quality of health benefits, disability, retirement planning in household | -Stability of household income<br>-Self-reliance of household | -Proposed client survey |
| -Clients' working hours per week<br>-Estimation of whether alternative occupation was better or worse than current occupation?<br>-Reason(s) why clients would give up their business | -Quality of life<br>-Quality of job | -Proposed client survey |
| -Percent of clients that have hired employees: what are employees' duties; full time, part time or casual; is there a social connection between employee and employer (acquaintance / family) | -Growth of business<br>-Community networks | -Proposed client survey |
| -Business transactions or collaboration with other small businesses<br>-Geographical scope of clients' business and market | -Community networks | -Proposed client survey |
| -Types of businesses and jobs created (by industry) | -Community well being and networks | -Records kept by Alternative Lending Program |
| -Branch staff's awareness of Peer Lending Program and perceived responsibilities<br>-Perception of the effectiveness of program delivery (loan criteria, administration) by branch lenders | -Perceptions of Alternative Lending Program reputation among branch lenders<br>-Effective program design and delivery through branch system | -Survey of branch lenders and management on Alternative Lending Program |
| -Clients' satisfaction of service received in VanCity branches and Peer Lending program | -Reputation of Alternative Lending Program in the community<br>-Effective program design and delivery through branch system | -Proposed client survey |
| -Largest obstacle in clients' business<br>-Percent of clients that have sought outside advice for business, and type of advice<br>-Training skills needed by clients | -Satisfying needs for technical assistance | -Proposed client survey |

| Indicator | Related key objective or issue | Source of Data in Social Accounts |
|---|---|---|
| **Outcome Indicators** | | |
| -Partners' satisfaction with Alternative Lending Program design (by rating scale)<br>-Percentage of graduates of self-employment Programs with self-reliance loans, with Peer Loans | -Effective program design and delivery of the Alternative Lending Program | -Survey of program partners |
| -Existence and volume of lending programs (dollars loaned, number of entrepreneurs, dollars earned) among Canadian and U.S. financial institutions | -Benchmark data for output indicators of Alternative Lending Program<br>-Reputation of Alternative Lending Program in community | -Canadian micro-credit programs guide (Hanlon 1997), EthicScan, ACCION (Himes and Servon 1998) |

Most of the indicators that have been developed in Table 11 are qualitative outcome indicators. Stakeholders' perceptions and individual experiences (mostly pertaining to clients' perceptions since they are the intended beneficiaries of the program) necessarily define the data for these indicators. Therefore, to develop an accurate generalization of the varied experiences within each stakeholder group it is necessary to draw upon a sample of individuals' outcomes.

The correlation of various indicators would be informative to Alternative Lending Program staff and management. For example, it would be interesting to correlate clients' needs for technical assistance to the target market served. The type of technical assistance required by different types of clients would provide clues about how to serve the target market's needs for technical assistance. The Alternative Lending Program serves different target groups through the Peer Lending Program and Self-Reliance Loans Program; it is key to the program's success to understand the needs of each target group to effectively design the Alternative Lending Program.

### 4.4.5 From Step 5: Recommendations on How to Develop Social Accounts

Sources of data for the social accounts are defined in the third column of Table 11, which correlate with the pertinent issue (in the second column) and indicator (in the first column). The following data sources for the social accounts are as proposed:

- Records already kept by the Alternative Lending Program could provide data for social accounts focused on output indicators. For example, survey evaluation about training sessions on the Alternative Lending Program, completed by VanCity branch staff; monthly financial and input records collected by the Alternative Lending Program (record of new clients and loans, financial records).
- Refined current sources of data. For example, the intake survey of clients to the Alternative Lending Program could be adjusted to gather data that is specifically required for indicators.
- New sources of data for the social accounts to be collected include interviews and/or focus groups with stakeholders (including branch lenders, management and program partners, and clients) to both identify their issues and objectives and develop indicators and gather data for indicators.
- Benchmark data should be collected from a variety of micro-credit programs, credit unions and financial institutions. Some micro-credit programs have started developing evaluations

of their activities through impact evaluations. For example, a network of six associate micro-lending programs across the United States, ACCION, conducted an evaluation of their outcomes on their clients (Himes and Servon 1998). In Vancouver, West Coast Enterprises, a self-employment training program, is currently developing an evaluation system that tracks clients' outcomes from the program up to 6 years after their enrollment in the training program. Benchmark data for input and output indicators regarding small business loans and micro-credit can be obtained directly from financial institutions and credit unions or by commissioning consultants to conduct studies across institutions.

In Table 11, the source of data for several outcome indicators is identified as 'Proposed Client Survey'. Draft content for this survey of Alternative Lending Program Clients (both current and past) is outlined in Table 12. The responses from this survey would be a significant data source for the social accounts. The draft questions in this survey are based on issues and objectives that were identified by clients in Step 3 and supplemented with ACCION's example of surveying of micro-credit clients' outcomes (Himes and Servon 1998). However, Alternative Lending Program clients should actively participate in designing this survey (perhaps through focus groups) to ensure that it pertains to issues and outcomes that are relevant to their issues and objectives.

In developing and administering this survey to identify clients' outcomes of the Alternative Lending Program, it would be important to clarify clients' involvement with the Alternative Lending Program (Peer Lending client, Self-Reliance Loan client, or both) in order to attribute results and thus accurately associate outcomes with the correct program(s). Some of the responses could be coded as 'multiple choice' responses or according to a rating system. For example, responses for "entrepreneurs' feeling of control over their business" could be expressed by choosing from the responses 'in control', 'not very controlled', or 'out of control', or respondents could rate their feeling of control on a rating scale of one to ten. It would also be important to make use of the more detailed and subtle information, since it is important to consider in gathering information about complex phenomena from individuals' perceptions. Another way of managing the massive amount of information in the social accounts is to select a 'core' set of indicators from the larger set of indicators shown in Table 11. Supplementary indicators can be added to the core set to develop a focus on a particular facet of the program (e.g. program delivery) (Zadek 1998).

## From Step 5: Recommendations on How to Develop Social Accounts

### Table 12 Questions for Survey of Alternative Lending Program Clients about Program Outcomes

| Questions to be posed to clients | Associated Objective or Issue Defined By Stakeholders (from Table 10) |
|---|---|
| Have you received a Peer Loan? A Self-Reliance Loan? How many loans? When? How much? If declined, why and what were the circumstances? | (Basic information about the client's involvement in program) |
| Are you active in the Alternative Lending Program now? Do you intend to apply for another loan? Why/why not? (business doing well, having problems, out of business) Will you apply for more loans in the future? More Alternative Lending Program or 'mainstream' business loans? | -Self-reliance<br>-Growth of business<br>-Use of VanCity Loan Products |
| Are you still running the same business as when you took out your first loan with the Alternative Lending Program? | -Self-reliance<br>-Stability of Business survival |
| Has your business grown since you received your first loan? Over the last year? Why? (perseverance, quality of work, financial organization, knowledge of field, self-confidence, networking, marketing) | -Self-reliance Growth of business |
| What was the amount of your take home income and your business profits when you started? Now? Do you take in the same amount of money each month for your household? Increasing, decreasing or stable? More or less stable than last year? Is anyone in your household on employment insurance? Do you have disability insurance, benefits, and retirement plan? | -Self-reliance, stability<br>-Quality of life, stability<br>-Target group |
| Are the goals for your business similar to when you started your business? | -Quality of life<br>Self-reliance |
| Why did you start your business? Do you have a business background or training? (Describe.) | -Target group; link to needs for technical assistance |
| What is your current debt besides your Alternative Lending Program loan? | -Self-reliance |
| How is your life different from when you did not have your own business? Better or worse and why? | -Quality of life |
| How would you define success for you and for your business? Could you rate your current success from 1 to 10? | -Quality of life,<br>-Self-reliance |
| What would you do to make your business more successful? Tips for a new entrepreneur? | -Quality of life |
| For how long do you plan to stay in your business? What would make you decide to give up your business? | -Quality of life<br>-Quality of job |
| What has been your biggest obstacle in your business? What do you dislike the most about your business? Have you ever sought 'expert' advice for your business (consulting, training)? Why? When? From whom? Was it effective? | -Need for technical assistance |
| Why did you apply to the Alternative Lending Program for a loan and how would you rate your experience with VanCity lending staff? Did you apply elsewhere for a loan? If yes, what was your experience? | -Community reputation of Alternative Lending Program<br>-Target group |
| In what way did you use your (first) loan (and subsequent loans)? (Capital expenditure, start-up, marketing, etc.) | -Target group |
| Has your participation in Alternative Lending Program affected the way that your business has developed (from loans, from support, from networks)? | -Role of Alternative Lending Program in outcomes |

| Questions to be posed to client | Associated Objective or Issue Defined By Stakeholders (from Table 10) |
|---|---|
| What would you be doing for a living if you had not started your own business? | -Quality of life |
| Do you have any employees? If yes, how many employees, how much time spent per week? What do they do? What training do they have? When and why did you decide to hire them? Do your friends, kids, and family help with your business? If no employees, do you want to hire employees and for what purpose? | -Growth of business -Community networks<br>-Self-reliance |
| Have you met a lot of other entrepreneurs? Do you conduct any of your business with them? | -Community networks |
| In what geographical area do you conduct your business transactions? Describe. | -Community networks |
| Do you sell your product yourself or through other markets? Where? | -Community networks |
| Are you satisfied with the amount of money you make? What are your goals for business this year? Any perceived barriers to solve? | -Self-reliance |

## 4.5 CONCLUSIONS

The researcher's recommendations and lessons learned from the case study are presented in two sections: first, the lessons learned about the Alternative Lending Program and recommendations for future implementation of the multiple bottom line for the Alternative Lending Program; and second, general lessons learned about alternative measurement.

### 4.5.1 Lessons Learned and Recommendations for Next Steps

This multiple bottom line framework was developed as a result of preliminary research on stakeholder issues and objectives. This process has indicated that it would be beneficial to the achievement of the Alternative Lending Program's objectives to continue to build the multiple bottom line. It could assist Alternative Lending Program staff to diagnose problems and understand how to make the program function in a way that meets its goals. The objectives and issues that are raised in communication with stakeholders would clarify the areas for improvement in the program. The completeness of the multiple bottom line could be enhanced by involving more stakeholders in the process and by increasing the depth of communication with stakeholders through interviewing and focus groups.

The framework shows the value of involving multiple perspectives in assessment. For example, during the preliminary identification of stakeholder groups' issues (in Step 3) the issue of program delivery was prevalent in each of the four stakeholder groups, however each of stakeholder group's perceived some diverse issues in program delivery, and different angles on some commonly identified issues of program delivery. Clients focused on the need for technical assistance; program partners were concerned that applicants be treated consistently; branch staff and management were concerned that they understand the process and their responsibilities in delivering the program; and Alternative Lending Program staff was concerned about the extent and quality of the communication about the Alternative Lending Program within VanCity.

It became evident that developing a multiple bottom line can be a manageable endeavour if it is understood as an evolving system of assessment; each stakeholder group and issue cannot be covered during each cycle of social accounting. For example in developing the framework only four key stakeholder groups were selected to keep the scope manageable. Zadek (1998) suggests that different 'cycles' of social accounting could focus on a specialized aspect of the organization, e.g. program delivery, or technical assistance. Perhaps a core set of indicators could be established and supplemented with indicators pertaining to a particular and changeable theme.

Since both programs within the Alternative Lending Programs have existed for less than five years, many of the long-term outcomes for clients (and for other stakeholders) have yet to occur. However, the objectives of both programs are geared to the achievement of long-term outcomes: individuals' and communities' self-reliance and well being. Although past clients of the program are likely difficult to contact, the Alternative Lending Program staff should try to maintain contact with current clients and be diligent to keep contact with current clients after they have repaid their loans. This sustained contact will help the program to learn about clients' long-term outcomes and needs, and to improve the design and delivery of the program.

The multiple bottom line framework focuses on the social and economic elements of the program. However, progress toward environmental and ethical objectives should be explored since they are components of social responsibility. For example, what are the environmental impacts of the businesses that are encouraged by the program? Which types of enterprises does the Alternative Lending Program not consider lending to for ethical reasons (e.g. escort agencies) and what is the program's basis for its judgement? The Alternative Lending Program may consider developing program policies on these issues.

Benchmarking both with other organizations and within an organization over time, is an important component of multiple bottom line assessment. As discussed in the context of building social accounts, many micro-credit organizations assess their impacts though program evaluations. However, traditional program evaluations tend to be centred on the program's issues and objectives defined by the program, whereas the multiple bottom line evolves with stakeholders' issues and objectives. The multiple bottom line addresses both functional and strategic accountability, while program evaluations tend to be more focused on output of a particular program within an organization (Posovac and Carey 1985). Also, the multiple bottom line assesses the program based on outcomes, while most types of program evaluation are limited to assessment based on output. The Alternative Lending Program's development of the bottom line could contribute to the need within the micro-lending field to define and assess program effectiveness. This could be accomplished by sharing their approach and ideas about the multiple bottom line framework with other micro-credit organizations.

Since the purpose of indicators is to signal trends, it is essential to contextualize the findings from the multiple bottom line framework within broad social trends. Results should be used to develop new strategies that deal with changing and anticipated social conditions. Social accounts cannot provide a complete picture of current conditions; they only provide information that is sought by the set of social indicators. In the case of the Alternative Lending Program, it is possible that outcomes attributed to the Program are in part affected by social factors that are outside the influence of the Alternative Lending Program.

Compromises must be made between simplicity and in-depth investigation when basing assessments on indicators. There is a tendency to develop a plethora of indicators, such as the extensive set developed in this study; however it is arguably more effective to select only indicators that reflect basic objectives of the program in order to provide an understanding of main trends and changes.

#### 4.5.1.1 Potential Challenges for the Alternative Lending Program in Implementing the Multiple Bottom Line

Some of the common challenges faced by organizations that undertake social accounting and auditing were discussed in Chapter 3. Some potential challenges and issues that are specific to the Alternative Lending Program's multiple bottom line are briefly explored below: the media, development of social accounts, and the need for standards.

The role of the media is important to consider since many organizations, including VanCity, are motivated to undertake social accounting and auditing to insulate themselves from public criticism (Carlson 1999). VanCity has a strong public presence, thus public expectations for its social responsibility will likely be heightened by the recent release of its social report (VanCity 1998). Since the Alternative Lending Program is itself one of VanCity's corporate social responsibility initiatives, the multiple bottom line will play an important role in the reputation of the Alternative Lending Program as well as the credit union as a whole.

The work ahead in developing the social accounts should not be underestimated. The multiple bottom line framework identified several sources of data for indicators (in Step 5). However, surveying, interviewing and focus groups are required in order to obtain more information. The Alternative Lending Program needs to plan the evolution of the multiple bottom line around a realistic allocation of resources that it is willing to commit in order to establish and build the social accounts.

A lack of benchmarks and standards in social accounting practice could be an obstacle for the development of the Alternative Lending program's multiple bottom line. It is important for the Alternative Lending program to compare its performance indicators with other micro-credit institutions and financial institutions, as well as other community development organizations. However, as previously discussed, there is a dearth of data pertaining to many such organizations' outcomes, thus the Alternative Lending Program's multiple bottom line is an important contribution to the practice of measuring outcomes and the developing field of alternative measurement. It will also take several years to develop time series data within the Alternative Lending Program; it takes time to build a tradition within the organization for the collection of the type of data required by social accounting and auditing.

### 4.5.2 Lessons Learned from the Case Study about Social Accounting and Auditing

From this case study it can be concluded that the multiple bottom line addresses the Alternative Lending Program's need and motivation to assess its progress according to social outcomes. In addition, an appreciation for the process involved in developing social accounts has been gained. The development of a multiple bottom line framework of assessment could significantly contribute to the development of alternative measurement systems by various types of organizations, resulting in benefits to practising organizations as well as to stakeholders and society.

However, despite the anticipated benefits to be gained both by various types of organizations and society from social accounting and auditing on a widespread basis, it is unlikely that a widespread movement would occur due to a lack of organizations' motivation to practice social accounting and auditing. Motivation to undertake the development of social accounting and auditing is seemingly dependent on both the objectives of an organization and the structure of an organization. Examples that explore these motivations, VanCity and the Alternative Lending Program in particular, are discussed below.

VanCity is a leader in social accounting and auditing. Its motivation to undertake social accounting and auditing is owed, at least in part, to its unique organizational structure. VanCity was motivated to undertake social accounting and auditing for reasons related to its unique objectives as a profit motivated organization as well as a socially motivated credit union. As a credit union, VanCity is part of the social economy. Van City is also a profit motivated organization; it necessarily competes with many organizations in the mainstream financial services industry that offer comparable financial services and products. Social accounting and auditing develops accountability for VanCity's commitment to its inherent credit union objectives as a co-operative organization and community development principles. In conjunction, social accounting and auditing practices develop VanCity's competitive advantage in the mainstream financial services industry as a financial services institution that is accountable for its committed to socially responsible operations and products.

The motivation of the Alternative Lending Program to undertake social accounting and auditing practices is linked to VanCity's unique structure (a credit union and leader in social responsibility) since it is VanCity's program. Specifically, the Alternative Lending Program is offered as one of VanCity's 'socially responsible' loan products. As an organization with social objectives, the Alternative Lending Program is motivated to develop a multiple bottom line concept. Some of its motivations are: to assess its performance for its social objectives, which are more adequately measured by social indicators than financial indicators; to develop credibility for the validity and achievement of its social objectives; and to be accountable to its stakeholders and society. The Alternative Lending Program's objectives are similar to many organizations in the social economy, for example, other micro-credit organizations and CED organizations.

However, the Alternative Lending Program is a unique micro-credit organization because it draws resources and motivation for develop social accounting practices from its 'parent' organization, VanCity. Thus, the Alternative Lending Program is not constrained by the practical limitations to social accounting and auditing that typically constrain other social organizations' intentions to develop social accounts: limited and short-term funding. It is particularly beneficial for organizations with social goals to develop social accounts, audits and reports based on qualitative measurement of their performance. Social accounting and auditing assesses and validates such organizations' progress in meeting their objectives with a format that is appropriate to their objectives. Long-term social objectives are assessed with qualitative indicators of social outcome over a long period of time.

Unfortunately, despite the appropriateness of social accounting and auditing to social organizations, many such organizations would face obstacles in developing this type of organizational assessment. The costs (staff time) to develop a multiple bottom line are significant. In the case of non-profit and voluntary organizations, human and financial resources would be insufficient for developing social accounting systems (Posavac and Carey 1985), since the development and maintenance of social accounts requires long-term commitment and funding. Many social organizations operate on short-term budgets and they are dependent on external funding; therefore, they have short-term budgets and timelines. As a result of a short-term timeline and budget, many social organizations tend to assess progress according to outputs (despite long-term objectives and outcomes), and they assess individual programs' performance rather than the organization's performance as a whole (Edwards and Hulme 1995). Despite the practical obstacles faced by social organizations in developing social accounting and auditing practices, several NGOs in Greater Vancouver have expressed interest and motivation to develop social accounting and auditing practices in order to strengthen their organizational effectiveness, donor accountability and social accountability (Zadek 1998).

Mainstream profit motivated corporations (both public and private) are unlikely to develop social accounting and auditing practices for different reasons from the constraints for social organizations that have identified above. Corporations lack motivation to develop social accounts since the only social responsibilities they acknowledge are those that are legally required. Therefore, social accounting and auditing as practiced by corporations is driven by their underlying motivation to maximize profits. Mainstream corporations' limited liability and lack of local accountability (which is at least in part due to their large size and scale) further diminish their social accountability and need for accountability. However, since shareholders and consumers increasingly demand socially responsible and accountable corporate practices, mainstream corporations may become increasingly motivated by the long-term profitability of developing relationships and accountability to some of their stakeholders. (Examples of corporations leading this trend are The Body Shop and Ben and Jerry's, as discussed in Chapter 3.) Further, the development of social accounting practices by several organizations in a various industries could lead to pressure among industries to develop 'best practices'.

In conclusion, the structure and motivations of the Alternative Lending Program and VanCity to develop social accounting and auditing practices are unique. Although each of these organizations has commonalities with both social organizations and profit motivations, their unique structure and goals motivate their leadership in social accounting and auditing practices. Nonetheless, the study contributes valuable information about the motivation for organizations to develop social accounting and auditing practices. The future development of social accounting and auditing practice is discussed in the concluding chapter.

# CHAPTER V CONCLUSIONS

## 5.1 INTRODUCTION

The purpose of this chapter is to reflect on the overall lessons learned about corporate social responsibility and social accounting and auditing. The discussion in this chapter is based on preceding chapters in the thesis: review of corporate social responsibility theories in Chapter 2; review of practices in Chapter 3; and the case study on building a multiple bottom line framework for VanCity's Alternative Lending Program in Chapter 4. The conclusions address the objective of the thesis: to examine how corporations and organizations in the economy can contribute to well being in the economy, and in particular, the potential for social accounting to serve as a method to assess and account for organizations' performance. Lessons and recommendations arising from the thesis are first discussed, and then avenues for future research are identified.

## 5.2 THE APPEAL OF SOCIAL ACCOUNTING AND AUDITING

Social accounting and auditing is an appealing concept because it is necessarily participatory and transparent, thereby offering individuals as stakeholders, consumers and citizens, a role in Influencing organizations' performance and responsibilities in society. Social accounting and auditing represents a shifting definition in accounting and auditing practices, which have been conventionally dominated by economic and financial measures. The parameters for social accounts are based on social, ecological and economic performance instead of financial accounts' focus on economic performance. Also, social accounts are broadly defined by and communicated to society, rather than only to shareholders that are principally interested in their return on investment.

The development of social accounting and auditing is part of a discourse in society on the redefinition of social responsibilities of organizations, and the redefinition of the participants included in the process of defining corporate social responsibilities. Social accounting defines the concept of economy in a different way than do conventional financial accounts. Social accounts include transactions that are usually invisible (thus externalized) in the conventionally conceived economy: these include impacts that are not directly related to monetary transactions and flows such as long-term social and environmental impacts.

Application of social accounting and auditing has thus far been limited in practice. Types of organizations that have pioneered social accounting and auditing movements are businesses that define social objectives alongside their profit motive (an exception to the rule) to substantiate their claims of socially responsible conduct and differentiate themselves in the market. Organizations in the social economy that have undertaken social accounting and auditing to assess their progress in achieving social objectives and mandates by qualitative and participatory means, and to build their accountability to stakeholders and society. To date, few mainstream corporations have undertaken social accounting and auditing.

The concept of social accounting and auditing is a departure from market-based approaches to corporate social responsibility (e.g. social and ethical consumerism, codes of conduct) that only change consumers' perception of their social performance and sense of responsibility, without altering the way that business is conducted. The concept of social accounting and auditing extends beyond the constraints of the conventionally conceived economy, by assessing progress with long-term consideration for multiple—social, economic and ecological—outcomes.

Motivations for corporations and other organizations to undertake social accounting and auditing likely vary. Any organization must be motivated in some way by self-interest: to learn about society's expectations of them, to more effectively manage the organization and its areas of vulnerability, and/or to improve its reputation. Thus undertaking social accounting and auditing undoubtedly strengthens the organization's performance and its relationship with stakeholders in society, and likely improves its effectiveness and profitability. However, organizations undertaking social accounting and auditing dare to be more transparent than their peers and/or competitors about their overall performance and they open themselves up to scrutiny by stakeholders and the public.

## 5.3 CRITIQUE AND LIMITATIONS OF SOCIAL ACCOUNTING AND AUDITING

Despite the appeal of social accounting and auditing to increase organizations' corporate social responsibility and accountability, there are some limitations to the concept itself and its implementation in practice. Some of these concerns are outlined.

### 5.3.1 Confusion about Stakeholders

The concept of social accounting and auditing presents opportunities for stakeholders to define social responsibilities and assess an organization's performance. However, since social accounting and auditing applies principles of stakeholder theories, many of stakeholder theories' shortcomings are elucidated in the concept and practice of social accounting and auditing. A critical perspective can be taken that corporate accountability to stakeholders is merely a strategy for developing long-term profitability: only short-term profits are sacrificed by the organization to cultivate positive long-term relationships with stakeholders and long-term profitability. An additional critique is that corporations select stakeholders for the social accounting and auditing process based on self-interest, and they exclude the stakeholders that are always marginalized in society. For example, employees of a TNC's manufacturing plant in a developing country are likely excluded in a social audit. Also, the operations that are accounted for tend to be those in view and on the conscience of vocal stakeholders. Last, the formality and extent of an organization's obligations to stakeholders through social accounting and auditing is ambiguous.

### 5.3.2 Inadequacy of Stakeholders' Issues and Objectives to Represent Total Impacts

Social accounting and auditing focus on the "process" of the organization instead of the overall impact of the business itself on society and the environment. The only impacts that are accounted for are those defined within stakeholders' realm of concern. Social accounting and auditing cannot capture the broad social, ecological and economic impacts and trends to which the organization contributes. Therefore, social accounting and auditing does not necessarily challenge the capitalist system's mantra of growth and profit motivation.

For example, the BodyShop (cosmetics manufacturer and retailer) has developed copious social accounts that focus on the nature of the company's relationship with identified stakeholders. However the social accounts do not capture the broad implications and context of the organization in society. Despite its record of performance and stakeholder relations that are revealed in social accounts, the BodyShop can be criticized on the basis of its broader social and ecological impacts. Despite some of its progressive environmental principles and benevolent activities in society, the BodyShop propels the multimillion-dollar cosmetics industry thus its main objective is to produce and sell frivolous cosmetics that pollute the environment. Therefore, the BodyShop's "success" harms the environment.

A pessimist would conclude that social accountability and auditing is a strategy by corporations to retain the status quo by satisfying the minor demands of their immediate stakeholders: a far cry from a leading dialogue about social responsibility and accountability. Proponents of this perspective would call for alternatives to the corporate structure because it is inherently unaccountable. However, the findings from this thesis indicate that co-ordinated approaches to structural change are necessary to change the economy as a whole.

### 5.3.3 Lack of Development of Approaches to Social Accounting and Auditing

Little direction has been developed in the literature on how to go about social accounting and auditing. The researcher is familiar with just one comprehensive step-by-step guide to social accounting that is centred around stakeholder consultation: NEF's. The researcher applied this method for social accounting and auditing in the case study. From the review of literature, it was apparent that more non-participatory methods (an external evaluation of organizations' social responsibility that is based on a set of criteria, often used to guide socially conscious consumers and investors) than participatory methods are being developed. There is a need to develop more promotion of 'how to do social accounting and auditing' in a way that embraces the intended principles of the concept.

### 5.3.4 Necessity for Leadership of Social Accounting and Auditing 'Movement' by Stakeholders

On its own, social accounting and auditing is unlikely to motivate social responsibilities and accountability by profit-motivated corporations. The effectiveness of the strategy to increase social responsibility through social accounting is greatly enhanced by stakeholders' involvement and empowerment in the process of developing responsibilities. To "deepen" social accounting and auditing practice, stakeholders and citizens must become more involved in leading social accounting and auditing practice and demanding accountability. Without active involvement from civil society, social accounting may do little more than peripherally involve some stakeholders in a process that does not increase its social responsibility and accountability.

### 5.3.5 Practical Challenges in Implementation of Social Accounting and Auditing

In the process of developing a multiple bottom line framework for the Alternative Lending Program, some of the technical and general challenges of social accounting practice were elucidated. These are likely repeated in many social accounting and auditing endeavours:

- It is difficult to envision how qualitative data pertaining to input, outputs and outcomes of the program can be synthesized and analyzed to provide a constructive overall view of progress because of multiple parameters being considered.
- The process of building multiple bottom line framework revealed a broad scope of stakeholders' issues and objectives to be covered. The current focus of assessment has been on social elements since they are closely related to the objectives of the program. Thus consistent commitment to developing a diversified multiple bottom line are needed in order to be accountable for key ecological, ethical, social, and economic dimensions of performance.
- It is necessary to integrate the multiple bottom line framework throughout the Alternative Lending Program's and stakeholders' systems of data collection and assessment. Decision-makers must be confident about the multiple bottom line's capacity to indicate current conditions in relation to goals, and they must use it to help develop appropriate strategies and decisions.
- The long-term nature of social outcomes requires that stakeholders' interest and trust be maintained, and that resources be committed in this multiple bottom line framework of assessment over a long period of time.

## 5.4 RECOMMENDATIONS FOR FURTHER DEVELOPMENT AND IMPLEMENTATION OF SOCIAL ACCOUNTING AND AUDITING

It is important that the practice of corporate social responsibility and accountability be conceived outside of the market relationship between consumers and producers, since accountability for social responsibilities is essentially a matter of democracy. If social accounting and auditing is to be developed as a mechanism for dialogue on redefining corporate social responsibility, it must not be an ad hoc and voluntary practice led by some corporations and social organizations. Rather, civil society and government must have a more than a cursory role to play in developing and strengthening the social accounting and auditing movement.

### 5.4.1 Contributions of Social Accounting and Auditing to Resisting Negative Impacts of the Globalizing Economy

Civil society is active in creating a new concept of economy in local and international forums. Thus citizens are increasingly aware of the negative impacts of corporations on social and ecological well being and have initiated movements aimed at creating change in both resistance and renewal movements. Citizen groups have assembled at international, national and community levels to raise issues surrounding environmental effects and employment. Also, legal resistance to the rights of corporations has been voiced, and local principles and agreements have been developed. There have also been attempts by activists at international and national levels to prevent further political agreements facilitating global trade and minimizing government's role in society.

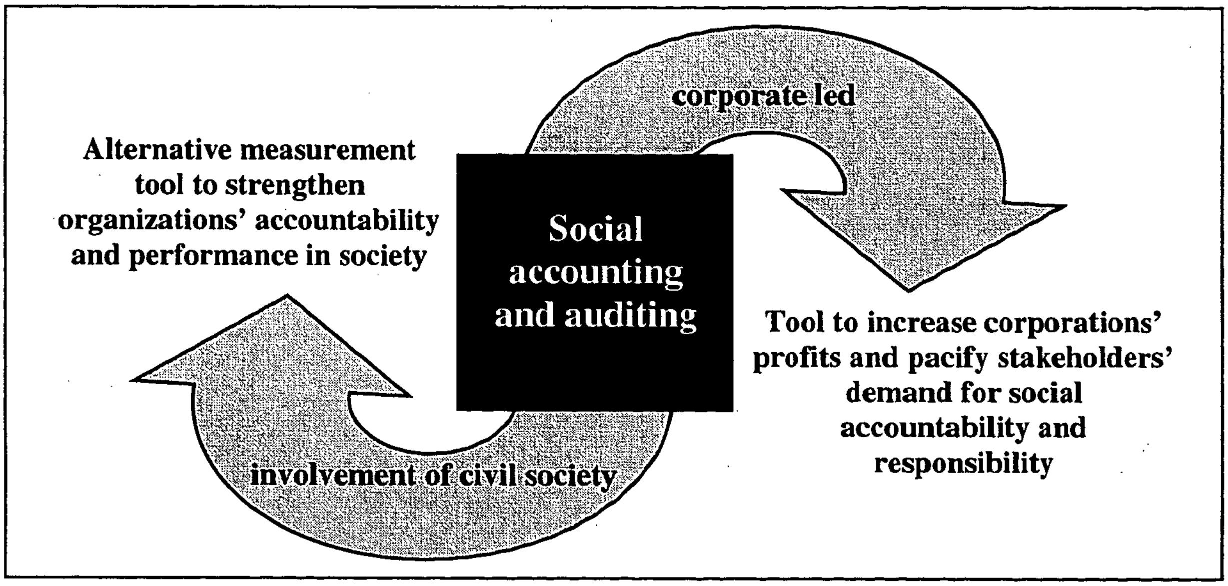
However, as much as irresponsible corporations are increasingly scorned for their practices, the conditions allowing such practices to occur are becoming advantageous through international trade agreements, disempowerment of local community economies, and lack of corporate accountability. This is because the structure of TNCs is inherently unaccountable: "The common denominator of [TNCs] is their lack of transparency and democratic accountability, the essence of neoliberalism." (George 1999: 8).

#### 5.4.1.1 Standardization and Legitimacy

A motivating factor for corporations to do social auditing is the social legitimacy they gain (Zadek et al. 1997). The current protocol for validating social accounts is to hire an external "expert" to verify the method by which the social accounts were collected and represented in their public report. However, there must be more emphasis on assessing the organization's actual performance and fulfilment of responsibility. Stakeholders and communities need to be leaders in developing and monitoring social accounting and auditing practices if they are indeed meant to be participatory and democratic. It is also proposed that NGOs and the United Nations be involved in building mechanisms of accountability for the impacts of corporations at both local and international scales.

The above point about TNCs' agenda in the global economy illustrated the irrelevance of social accounting and auditing to their practices. Stakeholders and civil society must loudly and consistently voice concerns to government about their disapproval of policies favouring TNCs. However, as corporations realize that social reporting might preserve their reputation and profitability, stakeholders and civil society must develop stringent standards to ensure rigour in the monitoring of social accounting and auditing practices. Figure 3 illustrates the positive benefits of social accounting for society if the process is rigorous and democratic; or the negative benefits if its implementation is limited to a promotional tool to enhance profits.

**Figure 4 Potential Directions for Future Social Accounting and Auditing Practices**




### 5.4.2 Resistance and Renewal: Implementation of Social Accounting and Auditing in Local Development Initiatives

It was shown above that social accounting and auditing will likely have limited effect in resisting the negative impacts of accelerating globalization. However, social accounting and auditing can contribute significantly to renewing localized economies.

In the review of structural change theories, it was argued that a large and essential portion of the economy is missing or undervalued in the conventional concept and measurement of the economy: the social economy. The social economy is composed of socially intentioned organizations that meet local needs, and it is integral to structural change strategies that attempt to pull power from hierarchical top-down organizations to a local level, and use bottom-up strategies to build a concept of economy that accommodates needs above profit.

Social accounting and auditing could be a powerful concept and tool to strengthen the social economy. For example, in the case study it was shown how the multiple bottom line can be used to assess the performance of a micro-credit program. Social accounts are an appropriate method to assess and account for the performance of social objectives, whereas conventional financial accounting cannot capture long term and social values. By implementing social accounting and auditing as a means of assessment social organizations are more fairly assessed and the social economy as a whole is validated.

According to Susan George (1999) alternative initiatives that are hostile to the overall ideological climate are subject to collapse, thus it is necessary to link initiatives with others that support similar structural change principles in order to strengthen them. This includes the activities of civil society involved in resistance as well as renewal. Social accounting and auditing is unlikely to sway the entire system of measurement and values in society away from economic growth and toward pursuit of well being. Therefore, along George's (1999) line of thinking, it is important to connect social accounting to other alternative practices in developing structural change.

Mendell (as cited in Brown 1997) argues that especially in the absence of the leadership from other levels of government, communities must take a lead role in development, guided by the following strategies: dealing with macro issues that affect the community, developing more equal partnership with business and labour and building democratic organizations. The contribution of social accounting and auditing to such strategies is given in two examples below.

The development of community indicators assists in defining and assessing progress toward community planning strategies. Organizations' social accounts should be co-ordinated with communities' social accounts to strengthen the relation between community objectives and organizations' objectives in meeting local development needs. A multiple bottom line can more adequately assess the progress of many organizations involved in CED (social economy, alternative organizational structures, small businesses) than conventional financial accounting. With active involvement of stakeholders and local communities in organizations' social accounting and auditing processes, local accountability of organizations in the community can be developed and maintained. Also, social accounting could be a tool for educating community members about the significance of local organizations in developing well being and community livelihood.

In exceptional cases, local agreements with corporations and local charters for corporations have been developed as a result of concentrated and persistent citizen activism. Social accounting and auditing can be implemented as a monitoring system for maintaining these local agreements. Similarly, the involvement of local communities of stakeholders in monitoring corporations could help to develop local charters and agreements.

## 5.5 AVENUES FOR FURTHER RESEARCH

Many avenues for future research could be identified in the fields of social accounting and auditing and corporate social responsibility. These fields are emerging in importance and present tremendous opportunities for innovative approaches to resist the negative impacts of the globalizing economy, as well as approaches for renewal of alternative concepts of the economy. Examples of such opportunities are outlined below.

- There is a dearth of information on social accounting and auditing methods. It would be useful to citizen groups and organizations interested in social accounting and auditing to have access to a brief guide about social accounting and auditing rationale, and steps to implementing social accounting and auditing.
- Cross-cultural research on corporate social responsibility and accountability would be instructive. A case study on a Danish bank's social and ethical accounting practices alluded to a high degree of corporate honesty and disclosure in Scandinavia (Zadek et al.1997). It would be interesting to know more about the expectations for corporate social responsibilities in Scandinavian and other countries, as well as any supporting traditions and legislation.
- There are many studies about the correlation between profits and socially responsible behaviour that have produced various results because of different definitions, criteria, and research bias. It would be interesting to explore the profitability of corporations that have undertaken social accounts and audits. For these same corporations, it would be instructive to examine other programs, corporate social responsibility principles or activities they have undertaken to develop social responsibility and accountability. The results of the study would be a good tool to promote social accounting.

- The local accountability of organizations has been encouraged by practices such as local agreements and local charters. It would be helpful to organize a series of case studies on successes in developing and maintaining local accountability practices.
- Social accounting has similarities with other alternative indicators movements, such as community indicators and alternative national indicators that are also striving to re-define the meaning and measurement of progress. Alternative indicators movements should be studied collaboratively in the context of their key players for development, technical and methodological difficulties, and theoretical support or motivation to facilitate the development. Also, it would be useful to cross-fertilize the leaders from each type of alternative indicators development, in order to develop new strategies.
- Most social accounts for organizations focus on social impacts and human stakeholders. However, it is essential to incorporate principles of ecological sustainability into social accounting, if possible, by working with ecological economists, deep ecologists and environmental ethicists.
- Social accounting is an opportunity for businesses with social goals and alternative organizational structures to substantiate their claims for their "socially responsible" principles and activities, and differentiate themselves in the market. What makes these organizations 'different' and what are their motivations? Also, how does social accounting and auditing help them differentiate themselves from competitors?

## 5.6 CONCLUDING REMARKS

This thesis has shown that social accountability and responsibility is not a matter to be addressed only by corporations. In fact, it has been demonstrated that issues of accountability and responsibility extend far beyond the role of corporations in society, rather they penetrate society's deeply imbedded assumptions and attitudes. Hawken aptly expresses the magnitude of this situation:

> "We have operated our world for the past few centuries on the basis that we could manage it, if not dominate it, without respect to living systems. We have sacrificed the harmonious development of our own cultures for enormous short-term gains, and now we face the invoice for that kind of thinking: an ecological and social crisis whose origins lie deep within the assumptions of our commercial and economic systems." (1993: 201).

In light of these difficulties and the magnitude of changes required, the potential contribution of social accounting and auditing may seem small. However, it addresses many issues of concern in society's approach to developing well being: the lack of value placed on the non-monetary transactions and impacts, and the objective rather than participatory approaches toward developing society. Social accounting and auditing can be reinforced by similarly intentioned and conscientiously implemented strategies that resist the acceleration of globalization and renew the bottom-up approach to meeting needs, ultimately placing survival of humans and ecology above the pursuit of profit.

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