

Corporate Social Responsibility, Corporate Social Performance & Sustainable Stakeholder Accounting

W. Richard Sherman, (E-mail: rsherman@sju.edu), St. Joseph's University

Abstract

Disclosures of a corporation's socially responsible (CSR) activities and measurement of its performance in those activities are uneven, inconsistent, and incomparable. Given the absence of reporting standards, this is not surprising. This paper explores ways to "account for" CSR and presents an example of "sustainable stakeholder accounting" that can be used to integrate corporate social performance (CSP) into the financial statements which provide information for so many economic decisions. It suggests how the development of indices of social responsibility may facilitate analysis of a company's performance by quantifying and objectifying what is clearly a value-laden area. However, this will only be possible if current accounting standards are modified. Indeed, one of the primary objectives of this paper is to advocate changes in current accounting reporting practices so that a various aspects of CSR/CSP are made more transparent and can be more objectively assessed by the stakeholders who are impacted. To accomplish this, the form and substance of these disclosures must have "bottom line" meaning – and these disclosures should be mandated by accounting and securities regulations, not left to the discretion of individual companies.

Introduction

*W*e not only need new forms of accountability but also new forms of accounting (Shell, 1998).

How do stakeholders know if a company is socially responsible? To what extent are investors, consumers, employees, the community, and other stakeholders cognizant of the social responsibility records - i.e., corporate social performance (CSP) of the company in question?

Are there different types of social responsibility? For example, Carroll (1979) has outlined four corporate responsibilities - economic, legal, ethical, and philanthropic. Are there more - or fewer - responsibilities that a business owes to its stakeholders? Does every business have all of these responsibilities or does it vary according to size, industry, government subsidization, or some other characteristic?

How is this social responsibility measured? Is there a single measure that captures the multidimensionality of Corporate Social Responsibility (CSR)? Or should there be different measures for different indicators for different issues of importance to different stakeholders?

How is CSR communicated? Does this merely fall (as some critics would claim) within the realm of advertising, public relations, and media attention? Or should there be required disclosures of a company's CSR/CSP similar to the financial disclosures mandated for publicly traded companies?

Readers with comments or questions are encouraged to contact the author via email.

The Significance of CSR

The idea of having a successful AND socially responsible company - doing well AND doing good - seems simple enough. What is not so simple is how to measure the social responsibility of a company, its management, and its profit-making operations. Not only is there considerable debate as to what issues are properly encompassed within the realm of CSR (Carroll, 1979; Wartick & Cochran, 1985; Wood, 1991a; Clarkson, 1995; Mitnick, 1995), there are no commonly agreed upon metrics for an organization's performance in this area (Wood & Jones, 1995; Griffin & Mahon, 1997; Domini Social Investments, 1997; Davenport, 2000).

Does anyone outside of academe truly care about whether a company is socially responsible? If the expansion of Socially Responsible Investing (SRI) is any indication, the answer is a resounding yes.

SRI is changing the very architecture of the investing world. Going forward, stock analysts will need to look equally at a company for both financial and social impacts. With 48 percent of U.S. households owning stock, the investment services industry needs to allow greater expression of personal values. The successful financial professionals and investors will understand both conscience and profit. (GreenMoney, 1999).

SRI (also described as social investing, socially aware investing, ethical investing, and mission-based investing) is not limited to wide-eyed radicals and holdovers from the Hippie era. It has become mainstream with big-time players such as Salomon Smith Barney, Neuberger Berman, Dreyfus, Vanguard, and TIAA-CREF offering "socially responsible" mutual funds. SRI has increased tenfold during the last decade, with estimates of the social investing industry exceeding \$2 trillion (Social Investment Forum, 1999). Indeed, one out of every eight dollars that is being professionally managed in the United States is part of some type of social investment portfolio with SRI growing at twice the rate of all other assets under management during the last two years (Social Investment Forum, 1999). The idea of "making money and making a difference" has a universal appeal, particularly if investors are not forced to suffer lower-than-average returns - the so-called "performance penalty" - in exchange for following their personal values. Recent studies indicate that no trade-off is necessary. For example, while Kurtz (1997) found that "socially screened" companies have smaller market capitalizations, slightly higher volatility and price-to-earnings ratios than the average for S&P 500, the risk/return relationship (the return earned per unit of risk incurred) is essentially similar for screened and unscreened portfolios. An earlier study found the range of performance for screened funds was not statistically significantly different from unscreened (Hamilton, *et al.*, 1993). In recent years, SRI funds have had returns that were similar to or which exceeded those of the overall market (GreenMoney, 1999). See also, Guerard (1997), Russo & Fouts (1997), Abramson & Chung (2000), and Statman (2000) for similar findings on equity returns; see D'Antonio, Johnsen & Hutton (2000) for the absence of a performance penalty on the returns from SRI bond portfolios.

There are questions as to the validity of such studies showing that SRI yields that are higher or at least comparable yields to non-socially managed investments. While the returns from SRI funds is not disputed, how particular companies are chosen for the SRI funds in the first place is questionable (Damato, 2000). This is merely a subset of the larger issue as to how is CSR defined and even more serious problems with how is CSP measured (Wood & Jones, 1995; Griffin & Mahon, 1997). Moreover, these exceptional SRI returns may be just that - exceptions. For the years in question, the SRI funds may just have been "boats in a rising tide". Not only was there a bull market but these funds are over-weighted with high tech companies (which are generally considered to be "green"), while the tobacco, defense and oil companies (firms that were screened out due to most SRI criteria) had fallen on hard times (Ji Min, 2000). As one analyst concludes, "recent results may have less to do with the rewards of ethical corporate management than they do [with] the kinds of stock that have recently been hot" (quoted in Abramson & Chung, 2000).

Nevertheless, while academics continue to search for a theory and definitions for what Corporate Social Responsibility (CSR) is and how Corporate Social Performance (CSP) should be measured, investors do not seem to be deterred by definitional uncertainties. As one author observes, "institutional investors are simply going with the information they get. That is, institutional social investors, managers or other persons responsible for implementing social screens for socially responsible mutual funds, in particular, have effectively defined CSR for their own pur-

poses. Utilizing any number of available sources of CSR information, they search for evidence of compliance or noncompliance with criteria which is in accordance with their own personal definitions" (Stone, 2000b).

Current Measures of CSP

Upwards of 90% of SRI is accomplished through professionally managed funds. To a large extent, the relatively minor involvement by individual investors is due to the lack of available information on a company's activities in areas of social responsibility. There are currently no required disclosures, financial or otherwise.¹ To make matters worse, the CSR information which is disclosed often takes the form of platitudes or public relations rhetoric. Without any standardization as to its form or content, this information lacks consistency and comparability. Consequently, rather than making decisions about a company using their own values and personal criteria, individuals investors are forced to rely on fund managers to make these decisions for them.

A few "independent" measures or indices of CSR do exist. Since 1983, the Fortune Reputation Survey (FRS) has reported the "reputation" of leading corporations based on ratings by executives, outside directors, and investment analysts of a company's performance in respect to eight areas – one of which is the community and environmental responsibility of the firm² (Fryxell & Wang, 1994).

The Social Investment Forum, also using a survey methodology, releases information every two years about particular companies and their CSR activities (Social Investment Forum, 1997, 1999).

More narrowly focusing on environmental issues is the Dow Jones Sustainability Index (DJSI). The DJSI lists and ranks the performance of companies in terms of promoting sustainable development (Dow Jones, 1999). As will be discussed later, questions on how environmental performance is measured by the DJSI, or by any organization, make the usefulness of such indices somewhat suspect.³

An even more comprehensive system of screening on the basis of social responsibility issues has been developed by Kinder, Lydenberg, Domini & Co (KLD).⁴ Using a complex weighting of "strengths" and "concerns" across several social rating criteria (e.g. Community, Diversity, Employee Relations, Environment, etc.), KLD has created SOCRATES, a corporate social ratings monitor and proprietary database of more than 650 publicly traded companies (KLD, 1999). While KLD's evaluation of companies across several factors does take into account the multidimensional character of CSR/CRP, Berman, et al., (1998) and Johnson & Greening (1999) found that the KLD dimensions are not strongly developed. Even though performed by experts who "are well known and respected in the social investment field" (Szwajkowski & Figlewicz, 1999), these analyses must necessarily be fairly subjective given the nature of the available CSR information. Not surprisingly, Damato (2000) found that among the 50 largest US stocks, 40% trigger a "split-decision" among three of the most popular SRI funds - Domini's Social Equity (which uses the KLD screens), Vanguard's Calvert Social Index, and Citizen's Equity funds – as to whether these stocks should be included in a socially responsible fund. If the experts cannot agree on CSR/CSP, how is the individual investor (or other stakeholder) going to be able to evaluate a company's efforts?

One of the most recent entrants into this arena is FTSE, an index calculation company co-owned by the London Stock Exchange and the Financial Times. In association with the Ethical Investment Research Services (London) and in partnership with the Council on Economic Priorities and Investor Responsibility Research Center (in US), FTSE is developing a family of indexes (FTSE4Good) which it believes will be the first step towards setting a global standard for socially responsible investing (American Banker, 2001). While FTSE plans to make these indexes available to brokerages and investment managers, it has no plans to include individual investors in its intended audience. Once again, the individual is left on his/her own.

Current Disclosures

At least in the financial realm, individuals can turn to the company itself for information – i.e., the annual report or other required regulatory filings (e.g. 10Ks). However, no such opportunity exists in regards to CSR/CSP. One survey found that the most popular management accounting tool for social reporting is the "balanced scorecard"

(Swift, et al. 2001). Developed by Kaplan & Norton (1996), the balanced scorecard broadens the evaluation of corporate performance beyond mere financial measures by incorporating customer satisfaction and supplier data in its analysis. However, it is primarily an internal management tool that may not readily translate into a social account for public disclosure. Indeed, Kaplan & Norton cite an executive who worried about the disastrous effects on his company if its "scorecard" fell into a competitor's hands. (Swift, Owen & Humphrey, 2001).

Many companies have taken it upon themselves to publish separate reports on their environmental, safety, employment and other aspects of their "social" record. For example, a common vehicle for communication of a company's environmental performance is a separate environmental report ("E-reports") that accompanies the company's annual financial report. 30% of the Financial Times Top 100 companies issuing separate environmental reports with one-third of these E-reports being externally verified (KPMG/WIMM, 1999). However, since the information contained in these reports is rarely of a financial nature nor are the E-reports linked directly to the financial statements in the company's annual report, a gap exists between the internal use of the corporation's expanding environmental accounting system and the information which is being communicated to external stakeholders.

The lack of tie-in to the monetary values reported on the face of the company's financial statements mutes the impact that such information can have. Similar complaints can be made in regards to much of the social reporting which is done by companies, even companies who receive awards for their social reporting (see www.Accountability.org.uk for a list of these Social Reporting Awards; in particular, see Shell's report on its social responsibility performance at www.shell.com/transparency). None of these provide information that comes close to approaching the impact of that found in disclosures made in the financial statements of publicly traded companies.

Some companies have experimented with attaching dollars and cents to their environmental efforts. For example, since 1996, Baxter International has been preparing and distributing these so-called "environmental financial statements" (EFS) as part of its stand-alone (i.e., without being integrated with the company's conventional Annual Report) Sustainability Report (Baxter, 1999a, 199b). Questions about the methodology used and meaningfulness of the numbers reported in Baxter's "estimated environmental costs and savings" have been raised:

It is not difficult to criticize the EFS on grounds of the definitions of terms and of the approximations behind several calculations. However, its stated purpose is not as a problem-solving tool, or even for direct decision support, but for attention-directing, to arouse interest and raise the profile within the company of environmental management (Bennett & James, 1998: 309).

The true contribution of these efforts is to promote an awareness of a firm's environmental vision and commitment. However, even when a firm's environmental performance is expressed in monetary terms, there remains a sense of a separate but unequal status given to these reports in relation to the conventional financial statements found in Annual Reports and regulatory (e.g. SEC) filings. In short, this lack of integration biases the financial statements that serve as one of the primary bases on which investment, credit, and other economic decisions are made.

Accountability to Stakeholders

Compounding the difficulty of measuring and communicating CSR/CSP is the simple fact that many stakeholder concerns and interests may be mutually exclusive of one another. There may not even be an agreement among various stakeholders as to what is properly within the sphere of CSR. For example, Maignan (2001) found that consumers in US, France, and Germany did not view Carroll's (1979) four corporate responsibilities - economic, legal, ethical, and philanthropic - to be "correlated dimensions of one underlying construct named corporate citizenship". This is at odds with her findings from a survey of managers (Maignan & Hult, 1999).

Hess (1999) suggests the use of a "reflexive law" approach to accomplish these disclosures. A mandatory, annual, independently verified social report with sections devoted to various stakeholders (customers, community, employees, environment, franchisees, shareholders, and suppliers) would allow for comparisons between corporations as well as providing a basis to track the progress of the particular company over time. Using social reports al-

ready issued by The Body Shop and Ben & Jerry's as illustrations, Hess answers the expected objections from companies of being painted as "good" or "bad" and of too much time and costs in creating and distributing the report. However, he does not address the major shortcoming of these social reports – viz. they do not tie directly into the financial statements on which so many managerial, investor, and other economic decisions are made. This linkage is critical.

The Role of Accounting

As Estes argues in his *Tyranny of the Bottom Line* (1996), accounting has the ability to define how the game is being played. If we want to change the rules of the game, then we first need to change accounting. Gray is more emphatic when he considers the impact that accounting has on one particular aspect of CSR - the environment:

(A)ccounting is the score-keeper. The 'score' takes no account of environmental matters and so, as a result, neither does 'economic' decision-making. Given the importance of accounting information and the way in which we account it seems inevitable therefore that 'economic' decisions must be environmentally malign. The environmental crisis is an inevitable result of the way we accountants do what we do. Accounting bears a serious responsibility for the growing level of environmental devastation (Gray et al., 1993: 22).

But accounting can also contribute to more responsible corporate actions by communicating information that would "make visible that which is currently invisible in organizational settings" (Gray, 1992). What is needed is a more creative accounting for CSP - using monetary values, however difficult to calculate, to give greater transparency to corporation's efforts and achievements, costs and failures. If nothing else, "the resultant data should be both disruptive and shocking" (Gray, 1992: 417).

Sustainable Stakeholder Accounting: An Example of What is Possible

For purposes of illustration, the following is an example of the kind of accounting that would better communicate the performance of a company in respect to one particular dimension of CSR – the natural environment.

Techniques for measuring environmental impacts are becoming more widely understood and utilized (EPA, 1995a; 1995b; 1995c; Epstein, 1996). However, models for "sustainable accounting", focusing on reporting the environmental impacts show even greater promise in being extended to other areas of CSR. For example, Gray suggest the use of:

A parallel accounting system which provided calculations of what additional costs must be borne by the organization if the organization activity were not to leave the planet worse off, i.e., what it would cost at the end of the accounting period to return the planet and biosphere to the point it was at the beginning of the accounting period.

To be effective, this shadow accounting system would preferably produce numbers which can be deducted from calculated accounting profit and be expanded in the restoration of the biosphere. This will, thus, lead to a recognition that organization income has been grossly overstated for some considerable time and that current generations have been benefiting at the cost of some future generations. The probability is that no western company has made a sustainable profit for a very long time, if ever (Gray, 1992: 419-420, italics in the original).

Perhaps the greatest benefit of Gray's calculation of "sustainable profit" is not in the accuracy of the numbers produced but in its attempt to "make visible that which is currently invisible in organizational settings". Furthermore, the fact that "the resultant data should be both disruptive and shocking" (Gray, 1992: 417) could effect a change in managerial/investor/stakeholder behavior in respect to organizations that have been previously reporting "unsustainable" profits while using the traditional accounting disclosures. Moreover, by reporting these environmentally adjusted profits and losses, environmental impacts can find their way into the financial ratios and other analytical techniques so widely used in performance evaluation and investment decisions.

Another conceptual technique, described by Magness (1997), is the use of an experimental balance sheet containing an "Environmental Equity" section. This section would contain environmental costs which have not already been included in the calculation of the company's net income due to their external nature (e.g. medical costs arising from reduced air quality, lost wages due to illness, crop damage, declining biodiversity). As the company makes environment-related expenditures, this environmental equity (i.e., the resources contributed to the company by the environment) would be reduced on the balance sheet. The resulting decrease of environmental equity as a percentage of total equity would show that "environmental resources have suffered less damage or depletion while sustaining the operations of this business" (Magness, 1997:16). On the other hand, if the environmental equity section increases as a percentage of total equity, then the environment is being depleted by the business' operations, which in turn, impacts the company's ability to be profitable on an ongoing basis (Magness, 1997: 18).

Combining Gray's idea of an environmental income (profit & loss) statement with Magness' environmental equity balance sheet account, a new form of *Sustainable Stakeholder Accounting Statement* could be developed. These statements directly tie a company's environmental performance to the traditional financial statements found in Annual Reports, 10K filings, and other financial reports.

An example of these statements – a *Sustainable Profit & Loss Statement* and a *Statement of Sustainable Financial Position* is presented in Exhibit 1. The fact pattern is similar to that provided by Magness (1997). As a starting point, the company's balance sheet is presented at the end of the Year 2000 (all numbers in millions). During 2001, the company reports income of \$400 - a number that includes some but not all the environmental costs of doing business. However, \$300 of the external costs (e.g. medical costs associated with reduced air quality, lost wages due to illness, crop damage, declining biodiversity, etc.) have not been "internalized" and would not be reported under traditional accounting principles - not on the company's income statement; not on the company's balance sheet; not anywhere.

In contrast to Magness' suggestion of treating this \$300 of "environmental equity" as a positive number, perhaps it makes more sense to treat it as a negative component of the company's equity (a contra-equity account). To simplify this example, assume that the entire \$300 relates to the current period (2001) and as such will be shown as a negative *environmental impact* on the company's *Sustainable Profit & Loss Statement*. This adjustment to the company's reported income follows Gray's model of a "parallel" accounting system. As these results from operations flow through to the *Statement of Sustainable Financial Position*, the subtotal for "income before environmental expense" does indeed increase the "owners' equity" section of the balance sheet by \$400 (from \$600 on 12/31/00 to \$1,000 on 12/31/01). However, the environmental charge also flows to the "balance sheet" (i.e., *Statement of Sustainable Financial Position*) in the form of an environmental liability and as a negative component of the company's equity shown as "environmental equity." Thus, the company's total equity is the same as that reported on a conventional balance sheet - only the composition has changed to highlight the interests of stakeholders (the community, future generations, nature, etc.) other than stockholders. Moreover, this new form of sustainability accounting recognizes and reports the existence of the environmental liability that will have to be satisfied at some point in the future.

A further implication of this new sustainable stakeholder accounting system can be seen by looking at its impact on two commonly used financial ratios. The Debt to Total Assets (or the similar Debt to Equity ratio) measures the relative contribution of creditors to the company's resources. For example a Debt to Total Asset ratio of .60 indicates that the company has raised 60% of its financing by way of debt, with the company's owners/stockholders providing the other 40%. From the point of view of creditors (existing or potential), a relatively low Debt to Total Asset ratio is desirable. Indeed, debt covenants frequently set ceilings on how high a company's ratio can climb before the loan is technically in default and will be called in. Note that under conventional accounting, this company's Debt to Total Asset ratio is quite low - falling from .40 at the end of 2000 to .286 at the end of 2001. However, by recognizing the environmental liability and negative environmental equity, the company's ratio has actually climbed from .40 to .50 at the end of 2001. Given this new accounting, one which more accurately reflects the *true* liabilities of the company, creditors would be much less willing to make a loan - or continue to carry an already outstanding loan. In short, in terms of its sustainable financial position, this company is far riskier than conventional accounting

would have us believe.

Net profit margin measures how much of each dollar of revenue a company is able to bring down to its "bottom line." Under conventional reporting, this company appears to be very profitable with a profit margin of 44.44% (44.44 cents of each dollar of revenue showing as profit). However, this profit is reduced dramatically (11.11%) by the recognition of the company's negative *sustainable impact* - proving out Gray that "the resultant data should be both disruptive and shocking" (Gray, 1992: 417)

Generally, the workings of this proposed *sustainable stakeholder accounting* will most often result in a more negative portrayal of a company's operations and financial position than would be true under conventional accounting. It is possible, at least in theory, for a company to have a positive *sustainable impact* during a particular period – and even a positive *Environmental Equity* section on its *Sustainable Financial Position Statement*. For example, assume that during Year 2002, the company engages in positive contributions (re-forestation, environmental remediation, etc.) to the natural environment it had previously degraded. Assume further that the cost of these contributions totals \$350, with all other revenues and expenses remaining the same as in Year 2001. The "contribution" not only satisfies the previously recognized environmental liability but creates an environmental "surplus" (i.e., environmental asset) on the company's *Sustainable Financial Position Statement*. Exhibit 2 illustrates this possibility.

While the company's conventional income statement and balance sheet are similar to those for Year 2001,⁵ the company's *sustainable profit* and *sustainable financial position* as the resultant Net Profit Margin (from 11.11% in 2001 to 83.33% in 2002), and Debt to Total Assets ratios (down from .50 in 2001 to .216 in 2002) are dramatically improved.

The primary advantage of implementing a system like sustainable stakeholder accounting is that it creates a common denominator for communication. Being expressed in monetary units, the impact of any particular aspect of CSR can be integrated directly into the financial statements and from there, developed into an index or ratio to facilitate analysis. In its proposed framework for sustainability reporting, GRI (2000) encourages the use of ratios inasmuch as they "relate two absolute figures to each other and thereby provide a context to both. . . . Ratios help illuminate linkages across economic, environmental, and social dimensions . . ." . Just as liquidity, solvency, and profitability ratios facilitate the analysis of these aspects of an organization, CSP ratios can facilitate the evaluation of the company's socially responsible activities. Moreover, by embedding the financial impact of CSR, both positive (such as cost savings and eco-efficiencies) and negative (such as environmental degradation), in the financial statements, a more comprehensive evaluation of true liquidity, solvency, and profitability can be made.

Sustainable Stakeholder Accounting: Making It Work

One can see why companies might be unlikely to put their neck out and issue a report which speaks to long-term intangible interests rather than short-term financial results, in a climate where profits and bottom-line continue to dominate the corporate world. Highlighting some risks through a social report might even hit profits due to unnecessary disclosure (Cowe, 2001)

Leaving the difficulties of arriving at agreed upon measures of environmental and other social impacts for future inquiries,⁶ how can the information produced by this new accounting be made available to the stakeholders themselves? What would motivate a company to "go public" with these disclosures? Again using environmental impacts as an example, corporations have found little motivation to go beyond mere compliance with required disclosures. While one study found improvement of a firm's environmental management system and performance was related to a higher stock price (Feldman, et al., 1997), most companies view disclosure of environmental data as communicating "bad news" (Gray, 1993), potential evidence to be used to establish future legal liability (CICA, 1997), or increases in operating costs with the resultant reduction in reported profits (Atkinson, 2000). [See also, Bebbington & Gray (1997).] Given the additional "costs" that could be associated with other dimensions of CSR, companies probably would much rather continue to use vague platitudes and not have their CSP monetized.

Based on a study of 524 companies which showed no relationship between profitability and social respon-

sibility measures, one author concludes that the bottom line is that all efforts to communicate CSP are public relations and marketing. "Corporate social responsibility is a marketing/product differentiation strategy" (quoted in Ji Min, 2000). Does this mean that companies really do not care about their stakeholders? And whether they really care or not, don't these companies owe a duty to communicate with their stakeholders?

After examining corporate environmental reports and commenting on the uneven state of environmental reporting, Beets & Souther (1999) conclude that both uniform standards for reporting and external assurance are needed. Unerman (2000) believes that governmental regulation, not only in environmental reporting but in other aspects of CSR as well, has greater legitimacy than a system of self-regulation. Bruce (2000) disagrees and believes that companies are not motivated by detailed rulebooks; instead, such regulation would lead to a compliance-only "laundrying of the conscience". Even Hess (1997) with his proposed mandatory annual social report believes that companies should be given some time to reach a consensus of what such a report should contain before standards are developed.

Cowe (2001) is more blunt:

Too much effort has been spent on customizing information, such that many of the reports have now been rendered virtually meaningless. . . . Without a common understanding and a standardized approach, it is highly unlikely that information disclosure of any substance will result and social reporting will continue to languish as a basic PR tool.

(S)ocial reporting will only ever have any relevance if government takes it seriously. And this means requiring all companies to include social information as part of their regular annual reporting process.

Better an Imprecise Number Than No Number at All

Rather than challenge the accuracy of the reports, we offer an award to the best and the prettiest. Instead of arguing for compulsory social reporting as part of a company's financial reporting regime, we work for better, more user-friendly tools that companies will be more likely to adopt. (Cowe, 2001)

Mission statements, business principles (see, for example, Shell's eight business principles including responsibilities to shareholders, customers, employees, those with whom they do business and to society (Shell, 1998)), "pretty" social reports and company websites with links to its CSP are all well and good. However, in order to have value, measurements of CSP must have some "bottom line" meaning. This does not necessarily require that every aspect of a company's performance be quantifiable and monetized. Nor does it mean that every aspect of CSR that can be expressed as a monetary unit be included on the fact of a company's income statement, balance sheet, or statement of cash flows. Indeed, it is probably best to require disclosure of the various aspects of CSR/CSP and then leave it up to the particular stakeholder to pick, choose, and make any adjustments to the reported financial statements that are the most relevant to his/her own interest.

Shell Oil has been experimenting with "Triple Bottom Line" (TBL) reporting of a firm's economic, environmental, and social performance (Shell, 1998). Developed by Elkington (1997) [see also, Deegan, 2000a, 200b], TBL has potential but is still in an embryonic stage of development:

If we were to score the current state of development of different types of triple bottom line accounting on a scale of 1-10:

1. Financial accounting would probably come in at around 8 (but recognize that financial accounting does not capture all the economic impacts associated with a business);
2. Environmental accounting might come in at around 3-4; and
3. social and ethical accounting would be hard pressed to score 1-2. (Shell, 1998).

What is missing from TBL is an integration of the three aspects of corporate performance into a single stakeholder statement. This is a weakness common to most current forms of CSR disclosure – a fact recognized by


the European Commission in adopting a recommendation on the recognition, measurement, and disclosure of environmental issues in the annual accounts and annual reports of EU companies. Among the EC suggestions is a closer coordination of separate environmental reports, statutory annual accounts, and annual reports which could be accomplished by incorporating relevant, transparent disclosures into companies' annual accounts and annual reports in a way that complements more detailed environmental reports (EU, 2001).

The "Social Balance", as described by Vaccari (1997), allows for this integration. A cost or outlay approach, the social balance serves as a disclosure of the financial costs associated with the "social mission" (as opposed to its "financial mission") which were incurred by an organization. Issued along with audited financial statements, the social balance reports on costs incurred in satisfying the interests of members, consumers (including product safety and consumer education), employees (training), and civil society (charitable contributions). Because these costs are already expressed in monetary units, they can be used to analytically adjust the numbers reported in the company's published financial statements – in effect, operationalizing Gray's "shadow accounting" system (Gray, 1992).

Conclusion

To provide relevant information, stakeholder accounting requires multiple disclosures to meet the differing information needs and objectives of the multiple stakeholders of an organization. Even within a particular stakeholder group, there will be differing objectives. Consequently, what is needed is a mechanism to collect, organize, and communicate relevant information that will enable each stakeholder to better evaluate how the company is performing in those areas which are most important to him or her. Different measures and different disclosures are needed for different indicators of corporate performance in respect to the different issues of importance to different stakeholders - not just environmental performance, not just community investment, not just employee-related issues and so on.

This paper has explored ways to "account for" CSR and suggested how these facilitate analysis of a company's performance by quantifying and objectifying what is clearly a value-laden area. The example of Sustainable Stakeholder Accounting presented was limited to the environmental performance of a company has been presented. However, this type of accounting could and should be expanded into other areas of CSR such as community involvement, commitment to diversity, consumer advocacy, and human resource issues.

However, this will only be possible if current accounting standards are modified. Techniques for measuring, collecting, and communicating CSP need to be developed. In the end, particular stakeholders should be able to use this information to evaluate just how well their company did in regards to the issues that are important to them. Instead of relying on an "expert's" judgment and opinion, stakeholders can arrive at their own conclusions. 

¹ A few European countries (e.g. the Netherlands and Denmark) have passed "Green Account" legislation requiring disclosure of pollution emissions and resource usage. However, these disclosures are not tied into the companies financial statements.

² The areas encompassed by the FRS are quality of management, quality of products or services, innovativeness, value as a long-term investment, financial soundness, ability to attract/develop/keep talented people, use of corporate assets, and community & environmental responsibility. It is this last category that would be relevant to those concerned with CSR.

³ Cowe (2000) remarks that "we reward a company which manufactures harmful chemicals by placing it at the top of the Dow Jones Sustainability Group Index. Why? In part, because it produces a social report."

⁴ KLD rates CSP over dimensions of CSR – Community, Diversity, Employee Relations, Environment, Non-US Operations, Product, Other (Compensation, Ownership, Tax Disputes) – and applies exclusionary screens based upon a company's revenue from alcohol, gambling, tobacco, military, or nuclear power.

⁵ Note: Total Assets - assuming the "environmental contribution" merely changes the composition, not the dollar amount of the assets - and Stockholders Equity increases by the \$400 profit earned during 2002.

⁶ This area is one in which significant progress has been made. In addition to the EPA studies on "full cost" or "total cost" accounting (EPA, 1995b, 1995c) and use of "externalities" in managerial accounting systems (Epstein, 1996), concepts such as "genuine savings rate" (Atkinson,

1997) and “sustainable cost calculation” (Bebbington & Gray, 1997) have greatly increased the sophistication of the analysis and calculation of environmental impacts. See also “ecological footprint analysis” as explained in Chambers & Lewis (2001).

⁶ Note: Total Assets - assuming the “environmental contribution” merely changes the composition, not the dollar amount of the assets - and Stockholders Equity increases by the \$400 profit earned during 2002.

⁶ This area is one in which significant progress has been made. In addition to the EPA studies on “full cost” or “total cost” accounting (EPA, 1995b, 1995c) and use of “externalities” in managerial accounting systems (Epstein, 1996), concepts such as “genuine savings rate” (Atkinson, 1997) and “sustainable cost calculation” (Bebbington & Gray, 1997) have greatly increased the sophistication of the analysis and calculation of environmental impacts. See also “ecological footprint analysis” as explained in Chambers & Lewis (2001).

References

1. Abramson, L. & Chung, D. (2000). Socially responsible investing: Viable for value investors? *Journal of Investing*, 9(3): 73-81.
2. American Banker (2001). FTSE to track 'good' firms with indexes. *American Banker*, 166(43): 10.
3. Atkinson, G. (2000). Measuring corporate sustainability. *Journal of Environmental Planning & Management*, 43(2): 235-252.
4. Baxter International (1999a). *Annual Report*.
5. Baxter International (1999b). *Environmental, Health & Safety Report*.
6. Bebbington, J. & Gray, R. (1997). Sustainable development and accounting: Incentives and disincentives for the adoption of sustainability by transnational corporations. In C. Hibbit & H. Blokdjik (Eds), *Environmental accounting and sustainable development: The Final Report*. Amsterdam: Limperg Instituut.
7. Beets, D.S. & Souther, C.C. (1999). Corporate environmental reports: the need for standards and an environmental assurance service. *Accounting Horizons*. Vol. 13, No. 2 (June), pp. 129-145.
8. Bennett, M. & James, P. (1998). *The green bottom line: environmental accounting for management*. Sheffield: Greenleaf Publishing.
9. Berman, S.L., Wicks, A.C., Kotha, S. & Jones, T.M. (1999). Does stakeholder orientation matter? The relationship between stakeholder management models and firm financial performance. *Academy of Management Journal*, 42: 488-506.
10. Bruce, R. (2000). Corporate conscience. *Accountancy (UK)*, 126(1287): 61.
11. Carrol, A.B. (1979). A three dimensional model of corporate performance. *Academy of Management Review*, 4: 497-505.
12. CICA (Canadian Institute of Chartered Accountants) (1997), *Full cost accounting from an environmental perspective*. Toronto: CICA.
13. Clarkson, M.B.E. (1995). A stakeholder framework for analyzing and evaluating corporate social performance. *Academy of Management Review*, 20(1): 92-117.
14. Cowe, R. (2001). *Stakes not shares: Curbing the power of corporations*. London: New Economics Foundation.
15. Damato, K. (2000). Social studies: How 'responsible' funds differ on stock choices. *Wall Street Journal*, May 18: C1.
16. D'Antonio, L., Johnsen, T. & Hutton, B. (2000). Socially responsible investing and asset allocation. *Journal of Investing*, 9(3): 65-73.
17. Davenport, K. (2000). Corporate citizenship: A stakeholder approach for defining corporate social performance and identifying measures for assessing it. *Business and Society*, 39(2): 210-219.
18. Deegan, C. (2000a). Triple bottom line reporting: a new reporting approach for the sustainable organization. *Charter*, March.
19. Deegan, C. (2000b). Implementing triple bottom line performance and reporting mechanisms: further considerations. *Charter*, April.
20. Domini Social Investments (1997). *Domini social investments: 1997 social screening criteria and proxy voting guidelines*. Boston: Domini Social Investments.
21. Dow Jones (1999). *Guide to the Dow Jones Sustainability Indexes*, Version 1.0. www.sustainability-index.com
22. Elkington, J. (1997). *Cannibals with forks: the triple bottom line of the 21st century business*. Oxford, UK: Capstone.

23. EPA [United States Environmental Protection Agency], (1995a). *An introduction to environmental accounting as a business management tool: Key concepts and terms*. Washington, DC: U.S.E.P.A.
24. EPA [United States Environmental Protection Agency] (1995b). *Environmental accounting studies: Green accounting at AT&T*. Washington, DC: U.S.E.P.A.
25. EPA [United States Environmental Protection Agency] (1995c). *Environmental accounting case studies: Full cost accounting for decision making at Ontario Hydro*. Washington, DC: U.S.E.P.A.
26. Epstein, M.J. (1996). *Measuring corporate environmental performance: Best practices for costing and managing an effective environmental strategy*. Chicago: Irwin.
27. Estes, R. (1996). *Tyranny of the bottom line: Why corporations make good people do bad things*. San Francisco: Berrett-Koehler Publishers.
28. European Commission (2001). Commission issues recommendations on environmental issues in companies' annual accounts and reports. June 11.
29. Feldman, S.J., Soyka, P.A. & Ameer, P.G. (1997). Does improving a firm's environmental management system and environmental performance result in a higher stock price? *Journal of Investing*, 6(4): 87-97.
30. Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. New York: Basic Books.
31. Fryxell, G.E. & Wang, J. (1994). The Fortune "reputation" index: Reputation for what? *Journal of Management*, 20: 1-14
32. Gonella, C., Pilling, A., Zadek, S., & Terry, V. (1998). *Making values count: contemporary experiences in social and ethical accounting, auditing, and reporting*, London: Certified Accountants Educational Trust.
33. Gray, R.H. (1992). Accounting and environmentalism: an exploration of the challenge of gently accounting for accountability, transparency, and sustainability. *Accounting Organizations and Society*, 17(5): 399-425.
34. Gray, R., Bebbington J., & Walters, D. (1993). *Accounting for the environment*. Princeton: Markus Wiener Publishers.
35. Gray, R., Walters, D., Bebbington, J., and Thompson, I. (1995). The greening of the enterprise: An exploration of the (non) role of environmental accounting and environmental accountants in organizational change. *Critical Perspectives in Accounting*, 6: 211-239.
36. GreenMonday (1999). Investing with your values. www.greenmoney.com/gmj/spr00/spr100.htm.
37. GRI (Global Reporting Initiative) (1999). *Sustainability reporting guidelines*. Boston: Coalition for Environmentally Responsible Economies.
38. Griffin, J.J. & Mahon, J.F. (1997). The corporate social performance and corporate financial performance debate: Twenty-five years of incomparable research. *Business and Society*, 36(1): 5-31.
39. Guerard, J.B., Jr. (1997). Is there a cost to being socially responsible in investing? *The Journal of Investing*, 6 (2): 11-18.
40. Hamilton, S., Jo, H., & Statman, M. (1993). Doing well while doing good? The investment performance of socially responsible mutual funds. *The Financial Analysts Journal*, 49(6): 62-66.
41. Hess, David (1997). Social reporting: A reflective law approach to corporate social responsiveness. *Journal of Corporation Law*, 25(1): 41-84.
42. ISEA (Institute of Social and Ethical AccountAbility) (1999). *AccountAbility 1000: Standard for social and ethical accounting, auditing, and reporting*. London: ISEA.
43. Ji Min, S. (2000). Doing well by doing good. *DollarSense*, (Winter 2000): 7-10.
44. Kaplan, R. S. & Norton, D.P. (1996). *The balanced scorecard: strategy into action*. Cambridge, MA: Harvard Business School Press.
45. KLD (1999). SOCRATES Database. www.kld.com
46. KPMG/WIMM (1999). *International survey of environmental reporting 1999*. (Amsterdam: KPMG).
47. Kurtz, L. (1997). No effect, or no net effect? Studies on socially responsible investing. *Journal of Investing*, 6(4): 37-49.
48. Magness, V. (1997). Environmental accounting in Canada: New challenges to old theory. *CMA*, 71(1):15-18.
49. Maignan, I. (2001). Consumers' perceptions of corporate social responsibilities: A cross cultural comparison. *Journal of Business Ethics*, 30(1): 57-72.
50. Maignan, I. & Hult, G.T.M. (1999). Corporate citizenship: Cultural antecedents and business benefits. *Journal of Marketing Science*, 27(4): 455-469.

51. McWilliams, A. & Siegel, D. (2000). Corporate social responsibility and financial performance: Correlation or misspecification? *Strategic Management Journal*, 21(5): 603-609.
52. Pava, M.L. & Krausz, J. (1996). The association between corporate social responsibility and financial performance: The paradox of social cost. *Journal of Business Ethics*, 15: 321-357.
53. Preston, L. & O'Bannon, D. (1997). The corporate social-financial performance relationship: A typology and analysis. *Business and Society*, 36(4): 419-429.
54. Shell (1998). *Profits and principles - does there have to be a choice?* Shell Group 1998.
55. Social Investment Forum (1997). *1997 Report on Responsible Investing Trends in the United States*. Washington, DC: Social Investment Forum.
56. Social Investment Forum (1999). *1999 Report on Responsible Investing Trends in the United States*. Washington, DC: Social Investment Forum.
57. Statman, M. (2000). Socially responsible mutual funds. *Financial Analysts Journal*, 56(3): 30-39.
58. Stone, B.A. (2000a). Social responsibility and institutional investment: An empirical analysis of the environmental screen. *The Journal of Investing*, 9(3): 81-95.
59. Stone, B.A. (2000b). Corporate social responsibility and institutional investment: A special-purpose taxonomy of corporate social responsibility concepts. *State University of New York at New Paltz Working Paper*.
60. Stone, C.D. (1975). *Where the law ends: The social control of corporate behavior*. Waveland Press.
61. Swift, T., Owen, D. & Humphrey, C. (2001). Social status. *Financial Management*, January: 17-18.
62. Szwajkowski, E. & Figlewicz, R.E. (1999). Evaluating corporate performance: A comparison of the Fortune reputation survey and the Socrates social rating database. *Journal of Managerial Issues*, 11(2): 137-154.
63. Unerman, J. (2000). Regulating corporate conscience. *Accountancy*, 126 (1288): 77.
64. Vaccari, A. (1997). Constructing the social balance: Consumer cooperative, Italy. In Zadek, S., Pruzan, P. & Evans, R (eds) (1997) *Building corporate accountAbility: Emerging practices in social and ethical accounting, auditing, and reporting*. London: Earthscan: 171-188.
65. Waddock, S.A. (2000). Performance characteristics of social and traditional investments. *Journal of Investing*, 9(2): 27-19.
66. Waddock, S.A. & Graves, S.B. (1997). The corporate social performance-financial performance link. *Strategic Management Journal*, 18(4): 303-319.
67. Wartick, S. & Cochran, P.L. (1985). The evolution of the corporate social performance model. *Academy of Management Review*, 10(4): 758-769.
68. Wood, D. J. (1991a). Corporate social performance revisited. *Academy of Management Review*, 16: 691-78.
69. Wood, D. J. (1991b). Social issues in management: Theory and research in corporate social performance. *Journal of Management*, 17: 383-406.
70. Wood, D.J. & Jones, R.E. (1995). Stakeholder mismatching: A theoretical problem in empirical research on corporate social performance. *International Journal of Organizational Analysis*, 3(3): 229-267.
71. Zadek, S., Pruzan, P. & Evans, R (eds) (1997) *Building corporate accountAbility: Emerging practices in social and ethical accounting, auditing, and reporting*. London: Earthscan.

Exhibit 1: Sustainable Stakeholder Accounting Statements

Balance Sheet - A Common Starting Point

December 31, 2000			
Assets	\$1,000	Liabilities	\$400
		Equity	<u>600</u>
Total	\$1,000	Total Liabilities & Equity	\$1,000
Debt to Total Assets			0.40

Conventional Accounting:

<i>Income Statement (Conventional)</i>		
For Year Ended December 31, 2001		
Revenues		\$900
Expenses		<u>(500)</u>
Net Income (Loss)		\$400.00
Net Profit Margin		44.44%

Sustainable Stakeholder Accounting:

<i>Sustainable Profit & Loss Statement</i>		
For Year Ended December 31, 2001		
Revenues		\$900
Expenses		(500)
Income (Loss) Before Environmental Expense		\$400
<i>Sustainable Impact</i>		<u>(300)</u>
Sustainable Profit (Loss)		\$100
Net Profit Margin		11.11%

Conventional Accounting:

Balance Sheet (Conventional)			
December 31, 2001			
Assets	\$1,400	Liabilities	\$400
		Equity	<u>1,000</u>
Total	\$1,400	Total Liabilities & Equity	\$1,400
Debt to Total Assets			0.286

Exhibit 1: Sustainable Stakeholder Accounting Statements (Continued)
Sustainable Stakeholder Accounting:

Statement of Sustainable Financial Position

December 31, 2001

Assets	\$1,400	Liabilities (Other)	\$400
		<i>Environmental</i>	<u>300</u>
		Total Liabilities	\$700
		Equity:	
		<i>Environmental</i>	(\$300)
		Owners	<u>1,000</u>
		Total Equity	<u>700</u>
Total	\$1,400	Total Liabilities & Equity	\$1,400
	Debt to Total Assets		0.500

Exhibit 2: Sustainable Stakeholder Accounting Statements

Conventional Accounting:

Income Statement (Conventional)

For Year Ended December 31, 2002 (Year Two)

Revenues	\$900
Expenses	(500)
Net Income (Loss)	\$400
Net Profit Margin	44.44%

Sustainable Accounting:

Sustainable Profit & Loss Statement

For Year Ended December 31, 2002 (Year Two)

Revenues	\$900
Expenses	(500)
Income (Loss) Before Environmental Expense	\$400
<i>Sustainable Impact</i>	<u>530</u>
Sustainable Profit (Loss)	\$750
Net Profit Margin	83.33%

Balance Sheet (Conventional)

December 31, 2002

Assets	\$1,800	Liabilities	\$400
		Equity	<u>1,400</u>
Total	\$1,800	Total Liabilities & Equity	\$1,800
	Debt to Total Assets		0.222

Exhibit 2: Sustainable Stakeholder Accounting Statements (Continued)

Statement of Sustainable Financial Position				
December 31, 2002				
Assets	\$1,800	Liabilities	Other	\$400
Environmental As- set	50		Environmental	<u>0</u>
		Total Liabilities		\$400
		Equity:		
		Environmental		\$50
		Owners		<u>1,400</u>
			Total Equity	<u>1,450</u>
Total	\$1,850	Total Liabilities & Equity		\$1,850
	Debt to Total Assets		0.216	

Notes

