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## Theory & Practice: Social Measurement

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# Theory & Practice

## Social Measurement

Today's accountant is educated, trained, and experienced in preparing reports to management regarding the results of its activities. Today's report usually presents financial data expressed in dollars, and it presents the direct income and expense of a business and the historical costs of those assets it has left as well as the obligations it owes.

More and more comments are heard that such reports are not adequate — particularly from those who don't have to pay for the cost of their preparation. In a short time accountants will be expected to come up with "more meaningful reports."

What kind of report is expected? Possibly some translation of our present style of report into dollar amounts that would reflect current values would fill the needs of a few of those demanding a change. But such reports would still cling to the typical statement of income and expense, balance sheet, and changes in financial position. A discussion of departures from historical cost was presented in the April issue of this journal, however, and will not be considered here.

The rather startling development is that society is beginning to demand an altogether different kind of report from accountants. It may be the result of the current concern with the environment. Every profession — and nearly every major business — seems to feel that it must project an image of being greatly concerned about the environment. So in advertising, in employee training, in communication with stockholders, and in reports to the public, words such as "ecology," "pollution," and others which

were rarely used five years ago are now being used with monotonous frequency. But, like it or not, it now appears quite certain that accountants are going to have to adjust their reports to provide the information which will soon be demanded of them.

"Social Measurement" is one name given to the newer type of report being considered. And it appears that not only accountants in private industry will be expected to produce such Social Measurement reports, but also accountants in governmental agencies and in non-profit institutions. Each segment of society will report not only the direct results of its basic purpose (such as building highways, educating high-school students, or selling equipment) but will also report on the side effects of its activities, including contributions made to the general public benefit.

What kind of report is expected? Might it look something like the "Social Report" shown below? Will an attempt be made to put a dollar value on such things as land left useless by a strip-mining company? If so, will that dollar amount be measured by the expected cost to reclaim the land for some other use?

### SOCIAL REPORT

#### BENEFITS GENERATED:

Unemployed Persons Hired (35)	\$ 35,000	
Taxes Generated — Federal	\$45,000	
— State	10,000	
— Local	25,000	80,000
Safety Devices Installed		5,000
Health Care Provided (415 Employees)		30,000
		<u>\$150,000</u>

#### OBLIGATIONS UNFULFILLED:

Stream Pollutants Discharged (35 Lbs. per day)	\$ 32,000
Landscape Defiled (2½ acres)	26,000
Pollution from Employee Autos (commuting to work)	14,000
	<u>\$ 72,000</u>
NET CONTRIBUTION TO SOCIETY	78,000
	<u>\$150,000</u>

How is one to measure the pollutants arising from the primary activity? One might accurately report the pounds of various pollutants which result, but that has little meaning unless it is translated into labor hours or dollar values required to eliminate the undesirable product. This would be a problem faced in a report prepared on a governmental agency's highway program cutting through a grape vineyard — leaving great gashes in the surface of the earth and bringing into the area hordes of vehicles with their inevitable smog. Or the same problem would be faced in the report of a local milk company that puts milk into lovely plastic bottles with the ultimate empty carton causing increased problems of disposal.

How can one assign a dollar value to the benefit arising from providing employment of, say, ten people? If a monetary measurement of activity is not used, what will take its place? Can we use general terms to describe performance — such as "satisfactory," "excellent," or "inadequate"?

How will management react? Business has long been in the habit of providing rather detailed information to the public, and many firms are already introducing concepts of social responsibility into their organizations. Perhaps the reaction in

private industry to such in-depth reports will not be severe. But governmental and non-profit agencies have long been shielded from much exposure of their activities. They have been able to conduct their affairs with little information leaking back on their effectiveness. Is it possible that in the future a report may be issued to the effect that the XYZ PUBLIC AGENCY spent 78% of its revenue on items other than the basic purpose for which it was formed — and that it left 325 people in worse position than they were six months ago whereas the well-being of only 212 persons was considered to be improved? Will the new social measurement reports on a school indicate that only 16% of the students were elevated to an acceptable level in music — 24% to an acceptable level in finance, etc?

Only very few examples can be found to illustrate the format which such a report might take. In one instance this editor noticed that an arbitrary dollar amount was assigned to specific pollution items (such as 1¢ per mile on automobile emissions). It would seem that arbitrary costs will have to be used by pioneers in the preparation of social measurement reports — at least until such time as standards can be developed. The task of developing standards in this area may seem an impossible task. Yet, the assignment has been attacked. The American Institute of Certified Public Accountants appointed a committee on Social Measurement which is trying to develop tentative principles and standards for a corporate social report. To date only the profit-oriented firms have been considered. Hopefully the non-profit and govern-

mental organizations will not be neglected when methods of measuring and reporting are initiated. "Accountability" is a social concept that should be applied uniformly to all entities.

### Summary

Accountants are now facing a demand to consider the needs of society today and to find a way of reporting whether industry, government, and non-profit entities are fulfilling those needs. We are being asked to come up with a report to disclose whether an entity is meeting its responsibility to the rest of society even though no definition has yet been made as to what that responsibility may be. Yet the demands stated at the present are likely to be only a sampling of far more stringent requirements in the next year or two.

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*(Levy continued from page 11)*

Rural Legal Assistance which involved an analysis of the costs and operations of two Farm Labor Centers in Tulare County, California, in connection with the Housing Authority's proposed rent increase. For the San Francisco Citizens' Golf Association, we analyzed and compared costs and income of certain publicly and privately-operated San Francisco Bay Area courses in connection with a proposal to lease one of the city-owned facilities.

The Youth Law Center has retained us to study the costs and financing related to the care of dependent children in San Francisco in connection with a plan to develop comprehensive facilities to handle these children. San Francisco Lawyers' Committee on Urban Affairs has asked us to assess the feasibility of including low and moderate-cost housing in a large new development on the San Francisco peninsula. The San Francisco Ecology Center has engaged us to investigate and review the financial elements of a proposed \$390,000,000 expansion program at the San Francisco International Airport. We have also received inquiries from the Mexican-American Legal Defense and Education Fund, American Civil Liberties Union, San Francisco Equal Employment Opportunities Project, Environmental Defense Fund, the Council on Municipal Performance, and others.

Since April 15, 1972, the date we opened our office, we have become involved as consultants and interpreters to more than twenty local community organizations, and we also have been called upon from Washington, D.C., New York City, Brockton, Mass., and Madison, Wisconsin to consult on a variety of public interest problems.

Early in June of 1972 we testified before the Accounting Objectives Study Group and urged that the profession recognize its responsibility to act as consultants and interpreters of financial reports and data to consumer, community, and citizens' groups.

During September 1972 we appeared at the Graduate Study Conference of the California Society of CPA's, where we urged expanded participation of the profession in matters of broad social concern.

In both of these appearances the response of the participants was extremely enthusiastic. As a result, we have been sending copies of our quarterly reports to various parts of the country.

### Conclusion

We hope to encourage groups of accountants in other parts of the country to establish "public interest accounting firms" such as Accountants for the Public Interest. Participation by practitioners in

such organizations can help solve pressing social problems, improve the image of the profession, provide a stimulating and exciting work experience and the knowledge that we have found a vehicle for functioning as professionals in working toward the solution of some of the problems presently confronting our communities. By demonstrating that accounting can offer the opportunity to participate in the process of social change, we can encourage bright young people to enter our profession.

Accountants for the Public Interest will attempt to provide answers for clients and problems: clients who could not get professional services until now and problems that could not have been handled professionally before. The need for our type of service is both massive and, as witnessed by our brief history, highly effective in aiding other public interest organizations to affect reasonable and justifiable change through objective investigation, analysis, and research. Our growing involvement in local problems of public interest during the past year has clearly demonstrated the need for others in our profession to follow suit.

We offer our assistance in helping to form and organize similar groups elsewhere. We are therefore arranging a national conference on public interest accounting in San Francisco November 1-2, 1973.