Community involvement lends legitimacy to firms’ social accounting

blogs.lse.ac.uk/businessreview/2016/04/26/community-involvement-lends-legitimacy-to-firms-social-accounting/

4/26/2016

Social accounting is a broad term describing a range of company reports on community or wider stakeholder engagement. It is often viewed as a simple process of one-way communication as a company seeks to put forward an account of its social impact. It is less regulated in form than financial accounting, and its purpose is usually framed as winning some kind of legitimacy – a way for the company to manage its reputation or to soften its image. The focus of most research has been on the content of the reports: what are companies saying? What disclosures are they making? What is the effect of particular types of content?

Our research, however, finds that the narrative elements of social accounting may be more powerful than the detail of content, and that the active involvement of the target community is key to its effectiveness in winning legitimacy for the company. We used a theoretical frame based on the work of French sociologist Pierre Bourdieu as a way of organising ideas around the case of Royal Dutch Shell and their community reporting in North West Ireland.

The case was an interesting one, as Shell had established in the area some years prior to the commencement of social accounting, but had faced widespread and entrenched local opposition to their plans to build a pipeline and gas refinery. We used qualitative methods – in-depth interviews with people inside and outside of the company – as well as an analysis of a nine-year series of community-facing social reports. Our study of how they used social accounting to win a measure of local acceptance for their presence led to some new and interesting findings.

We find that in the case of locally-focused social accounting, the continuous involvement of local people has a significant effect over time. The impact of social accounting comes less from individual disclosures, and more from this repeated drawing in of community groups into the process. As report follows report, the social accounting narrative becomes more layered and powerful, weaving in more and more local stories. Bourdieu helps us to see how, by absorbing the local, and reflecting it back to the community, the social accounting series gradually becomes a kind of local artefact. This gives it symbolic power, rather like folklore, so that it doesn’t have to be literally believed in order to influence attitudes and behaviour.

This is significant for the way we understand social accounting. Unlike more metric-based forms such as financial accounting, it can change attitudes in a way that does not depend on evidence, analysis or quantitative measurement. The social accounting series comes to influence behaviour because it is accepted as part of local culture, and this acceptance comes from the direct involvement of locals in supplying content and seeing themselves reflected in the outputs. The fact that this power is not based on assertions of fact means that it is not directly refutable. In this way, social accounting as a co-created local story can become powerful and unquestioned in a way that financial accounting cannot.

Apart from the inclusion of local content, the social accounting process itself also creates a sense of acceptance within the community beyond that which could be achieved by economic power alone. A community investment programme, for instance, if not used to trigger a shared social accounting process, could at most win limited support from groups receiving grants or awards from the company. The accounting for that engagement, however, is far more powerful because it is not done by the company alone.

We observed how groups which received grants from the company responded by freely offering accounts of how it impacted on them, photographs of activities etc. to be included in the corporate social accounting series. They do not spontaneously offer this level of accountability to other donors, such as government agencies or lottery funders. They choose to "account to" the company as a natural response to what is framed as a kindness on the part of the company.

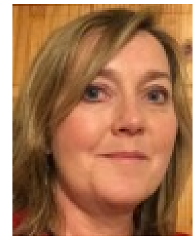
This way of understanding the relationship in terms of gift and gratitude transforms how the relationship between the company and the community is understood. This "accounting to" the company for their everyday activities changes not only how they view the company, but also how they view their own actions. What was spontaneous and instinctive becomes something to be accounted for externally. Their interactions become something to be described, and this can de-prioritise things that are not readily describable. More fundamentally, as the groups generate content for the company's social accounting process, they narrate themselves into a relationship of trust and dependence.

In summary, we find that, at least for community-facing social accounting, *who?* and *how?* are more important questions than *what?* Social accounting's power is essentially symbolic, depending on process rather than evidence, and so is softer and more difficult to challenge. This is achieved at some cost to the community of stakeholders. This is important, as it sheds light on the power and purpose of social accounting, and the processes by which it becomes effective.

♣♣♣

Notes:

- *This post is based on the authors' paper Social Accounting and the Co-Creation of Corporate Legitimacy, in Accounting, Organizations & Society, April 2016.*
- *This post gives the views of its author, not the position of LSE Business Review or the London School of Economics.*
- *Featured image credit: BoH, CC BY-SA 3.0*



Sheila Killian is the Assistant Dean, Research, Director for Principles of Responsible Management Education and a member of the ARC Accountability Research Cluster at the Kemmy Business School, University of Limerick. Her qualifications are in maths, taxation, business studies and CSR as well as accounting. Her research and published work addresses responsibility sustainability, accountability and the common good, with a focus on professional expertise, tax policy and business school education.

Philip O'Regan is as Executive Dean of the Kemmy Business School and member of the ARC Research Cluster at University of Limerick. He has qualifications in archaeology and history, political history, corporate governance, financial strategy and inter-faith studies as well as accounting. His research and published work addresses financial reporting, professional service firms, intellectual capital, accounting history, corporate governance and top management teams.