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Reporting Corporate Social Information to Stockholders and Investors

Leland Sorenson

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REPORTING CORPORATE SOCIAL INFORMATION
TO STOCKHOLDERS AND INVESTORS

by
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An Independent Study
Submitted to the Graduate Faculty
of the
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for the degree of
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This demand for social information is well founded. Present methods of reporting deal only with financial considerations. This results in social costs being passed on to society. Social costs occur as a result of business not considering costs borne by other members of society in decisions regarding the production, distribution and sale of its products. To the extent that a company has no legal or economic responsibility for its action, these costs are then borne by individuals in society and society in general. Present methods of reporting encourage managers to sacrifice costs borne by others.

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CHAPTER I

THE NEED FOR SOCIAL REPORTING

The demand for information concerning the social activity of businesses is becoming more and more an item of interest to consumer groups, the government, and investors. The National Council of Churches has tried appraising the social performance of individual companies.¹ An independent research organization known as The Council on Economic Priorities has been organized with the purpose of inquiring into the social activities of business.² Some established mutual funds have instituted a policy to invest only in "socially responsible companies."³ In fact, concern has grown to the point where some mutual funds, the most notable of which is the Dreyfus Third Century Fund, have been established to invest in only "socially responsible companies."⁴

This demand for social information is well founded. Present methods of reporting deal only with financial considerations. This results in social costs being passed on to society. Social costs occur as a result of business not considering costs borne by other members of society in decisions regarding the production, distribution and sale of its products.⁵ To the extent that a company has no legal or economic responsibility for its action, these costs are then borne by individuals in society and society in general.⁶ Present methods of reporting encourage managers to sacrifice costs borne by others since

these are not reflected in financial reporting. This was very eloquently explained by David Linowes.

Sophisticated analysts have always been aware that managements which neglect their machinery and equipment and scrimp on expenditures to train junior executives often show higher short-term earnings than are justified. In time, of course, this shortsightedness takes its toll on the company's operating effectiveness. In the same way, management can show a good operating profit by ignoring the harm the company's industrial operations may do to the land, water, and atmosphere.

In our present system of business reporting, we do not measure--or include in management statements--damage done to a stream when pollutants are dumped into it or to the landscape when the earth is scarred by strip mining. Nor do we give proper reporting credit for the good that management does. The relatively few companies which underwrite extraordinary activities benefiting society are beginning to recognize that they are "penalized" on their profit and loss statements. Costs of hiring and training hard-core unemployables, making executives available to assist ghetto entrepreneurs, and incurring extra costs to neutralize poisonous waste before it is dumped into streams reflect poorly on progressive management because they are charged as expenses against its operations.

Business management today functions in a new atmosphere of public scrutiny, to the point that the business executive can no longer look to profit alone as the measure of his effectiveness. The profit and loss statement and balance sheet alone are no longer adequate measures of performance--a means must be found which will reflect all facets of management's efforts.⁷

In response to this demand, corporations are making efforts to disclose their activities concerning social responsibility. Of the companies surveyed by Accounting Trends and Techniques, approximately one-sixth make specific disclosure of social awareness expenditures.⁸ Among larger companies, the efforts occur with greater frequency and are becoming more frequent. A survey by Business Week reports that in 1970, 30 percent of companies interviewed made disclosures on their concern for social responsibility; whereas by 1972, this percentage had risen to 62 percent.⁹ The presentation of these disclosures includes footnotes to the financial statements, portions of the corporation president's letter to the stockholders, parts of the annual report,

and special publications. These presentations are uniform neither in method nor in scope. They seldom are inclusive of all aspects of corporate social responsibility, and usually report only on positive aspects of what business has done. This lack of standards has left corporations wishing to report social information on their own in formulating methods of presentation. The frustration of businessmen who want to conform to standards of social performance was well expressed by William C. Norris, President of Control Data Corporation:

Ultimately, social responsibilities must be better defined so that corporations know their obligations to society. There are many complex and often conflicting requirements. Corporate resources are not nearly large enough to solve all the problems, but I believe corporations want to help not only because of altruistic reasons but also because it is the right thing to do and it is in the best interest of business to do it.¹⁰

This lack of standards results in a wide variety of methods lacking in consistency and comparability, and usually disclosing only favorable information. John D. Rockefeller, III, in The Second American Revolution, has called for measurement standards that go "strictly beyond the economic."¹¹ D. S. Langsdorf, the vice-president and comptroller of Bank of America, has gone so far as to suggest that "Reports on corporate responsibility may be commonplace within three to five years."¹²

In response to the growing interest in accounting for social responsibility, the accounting profession is taking steps toward the formulation of a method(s) of presenting data of social significance. The American Institute of Certified Public Accountants in April, 1972, sponsored an interdisciplinary roundtable on social measurement whose

participants included social scientists, political scientists, government officials, and business executives, as well as Certified Public Accountants.¹³ Consequently, the AICPA's Committee on Social Measurement was established.¹⁴ The National Association of Accountants has organized the Committee on Accounting for Corporate Social Performance.¹⁵ Other groups, including the American Accounting Association, are also grappling with the problem of developing methods of social measurement.¹⁶

While present requirements in regards to reporting social accounting to the public are few, the Securities and Exchange Commission does have some regulations concerning the disclosure of environmental litigation in various reports which it requires. These requirements were adopted in 1973 as amendments to the Securities Act of 1933 and the Securities Act of 1934 to "promote investor protection and at the same time promote the purposes of the national Environmental Policy Act."¹⁷ In filing a Form S-1, which deals with the issuance of new securities, the corporation must make a disclosure as follows:

Appropriate disclosure shall be made as to the material effects that compliance with Federal, State and local provisions which have been enacted or adopted regulating the disclosure of materials into the environment, or otherwise relating to the protection of the environment may have upon the capital expenditures, earnings and competitive position of the registrant and its subsidiaries.¹⁸

Also to be disclosed in the S-1 report are any pending legal proceedings against the registrant arising from any Federal, State, or local provisions relating to the protection of the environment if the claim exceeds 10 percent of the current assets of the registrant and its subsidiaries. In addition, in filing a Form 10-K, which is a required annual report to the SEC, the registrant must disclose the

material effects that compliance with environmental laws may have upon capital expenditures, earnings, and competitive position of the registrant.¹⁹

Within present generally accepted accounting principles, acceptable procedures for reporting social results of operations usually involve reporting losses or contingent liabilities arising from lawsuits. Footnotes should be added to financial statements to disclose contingent liabilities arising from lawsuits over such matters as minority employment, employee safety, or environmental damage.²⁰ Extraordinary losses resulting from lawsuits based on social issues presented in accordance with generally accepted accounting principles are presented in a financial income statement as an extraordinary loss, net of income tax effects, as the last deduction in arriving at net income.²¹

By the time this type of social cost has been disclosed, the stockholder is in a position where his financial status has been damaged. A comprehensive method of evaluating social performance may well have saved management the embarrassment and financial loss from such suits.

An exception to the general rule is the presentation of property, plant, and equipment acquired to combat pollution. The American Accounting Association advocates that there be separate classification of property, plant, and equipment acquired for the purpose of pollution abatement and environmental control from other items in property, plant, and equipment.²²

Despite all the research, there is no generally accepted definition of what social accounting is. The concept of social reports on business activities is referred to variously as social accounting,

social responsibility, and socio-economic accounting.²³ The authors of articles examining the subject appear to agree that what is meant by these concepts is an extension of traditional accounting beyond the confines of the business entity.²⁴ This is exemplified by the definition given by Kavasseri V. Ramanathan:

Social accounting is the process of selecting firm-level social performance variables, measures, and measurement procedures; systematically developing information useful for evaluating the firm's social performance; and communicating such information to concerned social groups, both within and outside the firm.²⁵

A broader definition is offered by Lynn and Lee Seidler:

Social accounting is the modification and application by accountants of the skills, techniques, and discipline of conventional (managerial and financial) accounting, to the analysis and solution of problems of a social nature. This concept views social accounting as essentially an extension of the principles, practices, and particularly the skills of conventional accounting and accountants.²⁶

A more encompassing definition frequently referred to was offered by Sybil Mobley in 1970:

[Socioeconomic Accounting] refers to the ordering, measuring, and analysis of the social and economic consequences of governmental and entrepreneurial behaviors. So defined, socioeconomic accounting is seen as encompassing and extending present accounting. Traditional accounting has limited its concern to economic consequences--whether financial, managerial, or national income areas. Socioeconomic accounting expands each of these areas to include social areas as well as economic effects which are not presently considered.²⁷

Even though there is not a generally accepted definition of social accounting, nonetheless the problems associated with it need to be addressed.²⁸

In evaluating the social performance of companies, a question arises as to what areas of social concern should be reported. In a poll conducted among persons selected from the 1973-74 National Accounting

Association directory, those areas which a vast majority thought should be presented in a social performance report were community involvement, activities directed at alleviating or preventing environmental deterioration, employee welfare, and product or service contributions.²⁹ The Social Dimension Fund, which operates to provide investors with a fair return financially from socially responsible businesses, concerns itself with six areas: consumerism, minority employment, community involvement, pollution control, employee safety, and philanthropy.³⁰

FOOTNOTES

¹"The First Attempts at a Corporate 'Social Audit,'" Business Week, September 23, 1972, p. 89.

²Steven Dilley, "An Introduction to Socio-Economic Accounting," Michigan CPA, March-April, 1973, p. 4.

³"The First Attempt at a Corporate 'Social Audit,'" p. 89.

⁴Ibid.

⁵Michael P. Cerisano, "SMS: Social Measurement Systems for the Future--A Practitioner's View," CPA Journal 44 (May 1974):25.

⁶Ibid.

⁷David Linowes, "Let's Get On With the Social Audit: A Specific Proposal," Business and Society Review/Innovation, Winter 1972-73, p. 39.

⁸American Institute of Certified Public Accountants, Accounting Trends and Techniques, 1973, p. 241.

⁹Cerisano, "SMS: A Practitioner's View," p. 25.

¹⁰Control Data Corporation, Committee on Corporate Social Responsibility, "Our Corporation's Contribution to Solving Special Needs--A Report from Control Data Corporation--1972," in The Accounting Aspects of Corporate Social Responsibility by Manuel A. Tipgos (Ph.D. dissertation, Louisiana State University, 1974), pp. 32-33.

¹¹Cerisano, "SMS: A Practitioner's View," p. 25.

¹²Dilley, "An Introduction to Socio-Economic Accounting," p. 4.

¹³Leroy Layton, "Social Missions of the Accounting Profession," CPA Journal 44 (April 1974):25.

¹⁴Ibid.

¹⁵Andrew K. Barnett and James C. Caldwell, "Accounting for Corporate Social Performance: A Survey," Management Accounting, November 1974, p. 23.

¹⁶Ibid.

¹⁷Securities and Exchange Commission, Securities Act of 1933, Release No. 5386, April 20, 1973 and Securities Exchange Act of 1934, Release No. 10116 April 20, 1973 in Social Accounting: Theory, Issues, and Cases by Lee J. Seidler and Lynn L. Seidler (Los Angeles: Melville Publishing Co., 1975), p. 177.

¹⁸Ibid., p. 180

¹⁹Ibid., pp. 181, 182.

²⁰Manuel A. Tipgos, "The Accounting Aspects of Corporate Social Responsibility," (Ph.D. Dissertation, Louisiana State University, 1974) p. 218.

²¹Ibid., p. 226.

²²Ibid., p. 214.

²³Steven C. Dilley, "Practical Approaches to Social Accounting," CPA Journal 45 (February 1975):17.

²⁴Ibid.

²⁵Kavasseri V. Ramanathan, "Toward A Theory of Corporate Social Accounting," The Accounting Review 11 (July 1976):519.

²⁶Lee J. Seidler and Lynn L. Seidler, Social Accounting: Theories, Issues, and Cases (Los Angeles: Melville Publishing Co.), p. ix.

²⁷Sybil C. Mobley, "The Challenge of Socioeconomic Accounting," The Accounting Review, October 1970, p. 762.

²⁸Linowes, "Let's Get On With the Social Audit," p. 39.

²⁹Barnett and Caldwell, "Accounting for Corporate Social Performance," p. 25.

³⁰Raymond A. Bauer and Dan H. Fenn, Jr., The Corporate Social Audit (New York: Russell Sage Foundation, 1972), p. 37.

CHAPTER II

PIONEER CORPORATE SOCIAL REPORTS

While the business community is awaiting pronouncements from the various accounting research groups, pioneer methods of presenting the social responsibility aspects of corporate activity are being made. One notable method of a comprehensive nature is that used by the Scovill Manufacturing Company, called the Social Action Report¹ (see Appendix A). The report is divided into four sections: employment opportunities, environmental controls, community involvement, and consumerism. Assets and liabilities are not valued in dollars. Instead, they are conditions or events stated in a factual manner. The report is published periodically along with the financial statements.²

In the employment opportunities section, the assets consist of such things as new jobs opened, the establishment or existence of specific programs for minority recruitment or training, the percentage of the work force comprised by minorities, the percentage of the work force composed of women, and the establishment or existence of programs for employees with regard to drug and alcohol abuse. The liabilities include such things as layoffs, the need for more minority employment, and the termination or failure of special employee programs. The assets of the environmental controls section consist of water treatment plants built, pollution control facilities assembled, and pollution control equipment installed. The liabilities are exemplified by problems in waste and sewage disposal encountered but

not solved, and activities necessary to bring manufacturing processes to legal pollution standards. The assets enumerated in the community involvement section include charitable contributions, the accomplishments of community action groups to which the company contributed, employee participation in local government, and executives loaned to government agencies. The liabilities are composed of problems still facing the community. In the consumerism section, assets consist of such concepts as product safety improvements, product quality upgrades, product service improvements, and other improvements in services to consumers. The liabilities include problems still encountered by consumers in the use of company products, and pending litigation which impose higher quality and performance standards.³

This reporting format is a much better presentation of information than the haphazard disclosure found in present practice. It presents both efforts or accomplishments and problems or detriments. This gives the reader of the statement much more comprehensive information on which to judge the extent of fulfillment of corporate social responsibility. Also, it does include most of the widely discussed areas of social responsibility--consumerism, minority employment, community involvement, pollution control, employee welfare, and philanthropy.

The disadvantage of this report is that it presents very little information in a quantitative manner. The costs of the activities presented are not disclosed. This information should be included for purposes of comparability and evaluation. For instance, if an alcohol rehabilitation program is established, but there are no employees in need and very few expenditures are incurred, its establishment is of

little consequence. Also, pollutants are dealt with by stating that a problem exists rather than quantitatively disclosing the extent of damage.

Another method of accounting for social responsibility is the Social Balance Sheet and Social Income Statement developed by Abt Associates, Inc.⁴ (see Appendix B). The Social Balance Sheet periodically sets forth in dollar terms the social assets of personnel, organization, research, and public services consumed. The credit side is entitled commitments, obligations, and equity. The staff social assets are a capitalization of the human resources of the business measured by contract value plus training investment less an allowance for training obsolescence. The organizational social assets consist of fixed assets such as land, buildings, and equipment. These are items which are used in the production of goods and services for society. Also included in the organizational category are capital investment and retained earnings. While these are equity owed to the firm's ownership, they are an asset to society since they are used for the production of goods. Also included in the social assets are research and public services consumed. Research is in a sense the production of knowledge, which is a service to society. The public services consumed are also a social asset since they are used in the production of goods and services as are labor and equipment.⁵

The credit side of this balance sheet is divided into the headings of staff commitments, organization commitments, environmental obligations, and society's equity. The staff commitments consist of the salaries of the company employees committed to the production of goods and services for other members of society. The organizational

commitments are capital and fixed assets which are to be employed in producing goods and services for other members of society. The environmental obligation consists of the cost to society of abatement of pollution created by the use of products which caused pollution in their manufacturing. Society's equity, which could be thought of as the net contribution to society, is the total contribution made to society through research and production reduced by social resources consumed in that process.⁶

The Social Income Statement periodically reports in terms of dollars the net social income or cost to the staff, community, and general public. The social benefits to the staff consist of such things as company furnished insurance, vacations, and fringe benefits. Social costs to the staff encompass such costs as layoffs, unpaid overtime, and inequality of opportunity. Inequality of opportunity is measured by the income loss of a minority employee based on his salary compared to that of a majority employee doing the same work and possessing the same qualifications. Social benefits to the community consist of local taxes paid by the firm, environmental improvements the company made, and the taxes received by local jurisdictions as a result of local employment created by the company. Social costs include local taxes consumed by the use of local services by the firm. Social benefits to the general public consist of state and federal taxes paid, contributions to the knowledge of mankind, and state and federal taxes generated through jobs created by the company. Social costs include federal and state services concerned.⁷

A social income (benefits less costs) of each area is arrived at. They are then combined to arrive at the net social income to staff,

community, and public. Unlike the net income figure arrived at on a financial income statement, the net social income does not reflect an increase in society's equity on the social balance sheet as net financial income does owner's equity on a financial balance sheet. Rather, the net social income is considered to be a social dividend paid out to the staff, community, and general public. Increases in the net social assets shown on the social balance sheet result mainly from increases in staff, organization, or research assets.⁸

The topics covered by this report include pollution improvements, employee benefits, minority employment, contributions, largely through taxes paid, and products made, to society. It presents pollution generated and improvements in the environment. However, it does not present specific steps taken by management to arrest pollution. Also, pollution measured only in terms of dollars may be insufficient disclosure. The disclosure of pollutants in terms of weight or volume may be more useful to the readers. Translation of such data to dollar amounts may be quite difficult to determine. Also hard to measure is the social benefit to the general public of increases in the knowledge of mankind. Many intangibles may enter into the computation of such an amount. While the Abt statements do not directly address the subject of employee safety, it would be reasonable to include such in the staff section of the income statement. Abt Associates is not involved in manufacturing and hence may have omitted this frequently mentioned area of social concern since it does not pose a problem in their operations. Listed by Ralph Estes as deficiencies of this method of social reporting are that it is difficult to understand, its treatment of primary and secondary effects is inconsistent (for example, solid waste

resulting from paper used by Abt is not recognized, but water pollution resulting from the initial manufacture of such paper is), it is still incomplete with respect to certain benefits and costs, the articulation between the social balance sheet and the social income statement is unclear, and it is not designed for manufacturing or merchandising concerns.⁹

To its credit, this report does include both positive and negative aspects of an enterprise's activities. Its evaluation of minority employment in the social income statement itself is limited to a dollar evaluation of wages lost to minority employees. However, included in the footnotes is quite a comprehensive evaluation of the extent and increases in minority employment. Also, the Abt method of reporting seeks to give a present position as well as a flow for the period. Also, the report is quite widely encompassing social concerns. Although, it does not deal directly with consumer interests or community involvement.

FOOTNOTES

¹American Institute of Certified Public Accountants, Accounting Trends and Techniques, 1973, pp. 244-45.

²Ibid.

³Ibid.

⁴Clark C. Abt, "Social Audits--The State of the Art," Cambridge, Massachusetts, 1972 (Mimeographed), pp. 18-22.

⁵Ibid.

⁶Ibid.

⁷Ibid.

⁸Ibid.

⁹Ralph W. Estes, "A Comprehensive Corporate Social Reporting Model," in Social Accounting: Theory, Issues, and Cases, edited by Lee J. Seidler and Lynn L. Seidler (Los Angeles: Melville Publishing Co., 1975), p. 191.

¹⁰Ibid.

CHAPTER III

PROPOSED METHODS OF REPORTING SOCIAL INFORMATION

In addition to the methods tried by Scovill and Abt, several untried methods have been presented. Among these is the Statement of Social Responsibility¹ (see Appendix C). It is a format for presenting all the expenses a company incurs in its efforts to be socially responsible or to improve society. The report is divided into the areas of environmental protection, consumer relations, minority employment, minority business support, contributions and community involvement, and conservation.²

The environmental protection portion of the report includes expenditures for pollution control equipment, the portion of employee wages which contributes to environmental protection, and research and development costs for cleaner manufacturing systems. Also included are depreciation of environmental protection equipment and interest on any debt incurred in order to purchase such equipment. The consumer relations section includes expenditures for such things as evaluating the wants of consumers, special services for consumers above and beyond those which would be needed to make a product sell or work, the expenses of special advertising to make consumers aware of the company's policies on consumer relations, and special packaging to make consumers happier.³

In the minority employment section, expenditures for hiring and training minority personnel are included. Also included are salaries paid to them while in training, teaching aids, and the cost and

depreciation of operating special facilities. If the company is large enough and so inclined, it may also support minority businesses. If so, an appropriate section is included in the Statement of Social Responsibility. Cost in this area would include the extra expense of high risk loans to minority businesses and any extra costs involved in the preferential purchasing of products made by minority enterprises.⁴

The contributions and community involvement expenditures include donations and expenses incurred in participating in community projects. Conservation expenses include such things as landscaping, research and development in the conservation area, and the increased costs of products as a result of conservation measures.⁵

The Statement of Social Responsibility is an improvement over random footnotes in that it is more comprehensive. Also, it quantifies the efforts of the entity in dollar terms.

One weakness of this statement is that it presents only the positive side of a company's action. The company may have spent large amounts for newer, cleaner smokestacks while it continued to spew forth chemicals into a nearby river or stream.

Also, the report includes expenditures in the consumer relations area which are expenditures to find out what consumers want, and for the "specialized advertising and promotion to make the consumer aware of what the company's policy is on consumer relations."⁶ Such expenditures are not for social good, but rather for public relations. It is very questionable whether such expenditures belong in a social report.

Indeed, this report takes on the nature of a summarization of social expenditures regardless of motivation. While such a report may be relevant in that it may make readers aware of the extent of expendi-

tures which the entity is making for social purposes, it presents only the positive aspects of the company's activities. Also, it gives no non-dollar data on the extent of pollution going on. For instance, if Y dollars are spent on pollution equipment, is the company polluting the air 15 percent less than previously or 80 percent less? Also, in the conservation area, the report includes landscaping. Such expenditures may be made for such purposes as proper drainage from the building, rather than an idea of improving community ecology or appearance.

In addition, the report does not cover the area of employee relations, which is one of the areas often mentioned in the field of social accounting.

Another proposed method is the Corporate Social Report conceived by Ralph W. Estes⁷ (see Appendix D). Dr. Estes defines a social resource as, "Anything--tangible or intangible--with a net positive value to society."⁸ The objective of such a report is to systematically reflect the worth of all resources consumed, including those resources which are free to the consuming entity and the worth of all benefits produced by the entity including those which provide no compensation to the producing entity. In such a system of reporting, a social benefit is considered to be any benefit to society or to specific elements in society whether economic or noneconomic, internal or external. A social cost is any cost, sacrifice, or detriment to society whether economic or noneconomic, internal or external. The report should be published periodically, preferably along with the financial statements.⁹

Composing the social benefits are the value of products and services provided, payments to other elements of society, services to

employees, improvements in the environment, employee services donated to others, equipment and facilities donated, and other miscellaneous benefits. The products and services are perhaps the most tangible social benefits since other members of society request and pay for them. The selling price of these goods provides a ready measurement medium. Payments to other elements of society are just that--wages, purchases, taxes, charitable contributions, etc. The other elements in society, such as the employee in the case of wages, benefit from these payments. It is in this section that discrimination towards minorities and women is reported. It does so by deducting from amounts paid to employees the amount of the income lost to such groups resulting from discrimination. Services provided to employees consist of payments and fringe benefits provided to employees not includable as wages. Improvements in the environment are another classification. Included in this section are such things as restoring strip-mined land, cleaning polluted lakes, landscaping, and similar beneficial acts. Donations of employee time and facility use is also considered a benefit to society.¹⁰

Included in the social cost side of this report are human services used, raw materials purchased, other goods and materials used, payments from other elements of society, environmental damage, public services used, work related injuries and illnesses of employees, and other social costs. Human services used in this format are the value which could be generated in alternative use of services. Raw materials and fixed assets purchased are treated as costs since society could have used them elsewhere. Certain raw material purchases of items of a scarce or nonrenewable nature may present a valuation problem since their value to society may very well go beyond that given it in the

marketplace. The other goods and services consist of those items used which did not have a financial cost to the company, but do have a social cost to humanity. It includes such things as air or water used in manufacturing processes. Payments to the firm from consumers, lenders, and others are a cost to society even as payments by the firm are a social benefit. Environmental damage is disclosed as a separate item in the cost rather than being netted against pollution abated so the user of the report can better judge as to the true environmental responsibility of the firm. Public services used are the company's share of police and fire protection received and damages done by it to streets, parks, and other public facilities. The valuation problem here could be tremendous since the value of an orderly and peaceful society in which to do business is not easily quantified. The cost of a work-related injury is of harm to another member of society--the employee--and hence must be reported in the cost section. These benefits and costs are then totaled and netted against each other to yield the net social surplus (deficit) for the year.¹¹

Also advocated by the author are footnotes disclosing statistical, comparative data on the employment and promotional status of minorities and women. Other footnotes are proposed to disclose the programs of the company aimed at alleviating the pollution costs revealed in the report.¹²

This report could be improved by a statistical narrative of the pollution both abated and continued. Measurement of pollution through dollars alone may well be insufficient information. There is so much disagreement among scientists over how much certain chemicals really do pollute that to arrive at an objective dollar equivalent appears to be

frustrating at best. For instance, the damage done by freon to the atmosphere varies among scientists from almost none to such drastic alteration that all mankind could be subject to harmful effects from ultraviolet rays in the near future. In a business such as a beauty shop, the pounds or cubic feet of freon released may be much more informative to the report user than a dollar estimation of its detrimental effect on society.

The strengths of this social reporting format are its thoroughness and readability. It attempts to present the full impact of a business from society's viewpoint. Also, it presents the information in a manner which may be quite usable and informative to the reader.

The major drawback to using this as a method of reporting for social responsibility is the difficulty in placing a dollar value on such things as environmental matters, the cost of the use of public services and facilities, and income lost to minorities resulting from discrimination.

Another approach to accounting for social responsibility is the Socio-Economic Operating Statement (SEOS) proposed by David Linowes¹³ (see Appendix E). The purpose of the SEOS is to show what a business has given to and held back from society.¹⁴

It is a tabulation of expenditures made voluntarily by business aimed at improving the welfare of employees, and/or public safety of the product, and/or conditions of the environment. Such expenditures required by law or union contract would not be includable, since they are necessary costs of doing business.¹⁵

Items of bad conduct brought to the attention of management but not acted upon are treated as deductions.¹⁶

The major difference between this method and other proposed and practiced methods is that this statement includes as positive

activities only those acts done without a profit motive. While it is very true that business contributes a great deal to society in pursuit of profit, many social critics may not be interested in such activities since they are not of benevolent motivation.

The statement proposed by Mr. Linowes would be broken into three major sections: relations with people, relations with the environment, and relations with products. Each of these sections presents improvements and detriments for the period. In relations with people, the improvements would include such things as training programs for handicapped people, charitable contributions, extra turnover costs because of a minority hiring policy, and the cost of child care or nursery facilities established for employee's children. The detriments would include such things as safety devices recommended to protect workers during the manufacturing process not purchased and used by the company. The total improvements less the total detriments are presented as net improvements (detriments) in people actions for the reporting period.¹⁷

The relations with the environment section would include such things as costs of voluntarily reclaiming and landscaping an old dump on company property, the cost of installing pollution control devices (which exceed the standards required by law), and the cost of detoxifying waste. Detriments include such things as estimated costs which would be incurred in restoring strip-mined land the company knows is in need of reclamation, and the costs that would be encountered in neutralizing those pollutants presently being released as a result of operations. As with people action, the environmental improvements and detriments are offset against each other to yield net environmental action improvement or detriments for the period.¹⁸

Relations with the product subsume such items in the improvements area as the incremental cost of using lead-free paint on products where lead poisoning paint had previously been used, and voluntary safety improvements made on toys. Detriments would entail such things as the estimated costs of safety revisions not made although recommended by a safety council or scientific research group. The total improvements and total detriments are netted to yield a net improvement or detriment. This would be combined with the net figures from the people and environmental areas to arrive at net socio-economic improvements for the period. This can be combined with the cumulative total from prior periods to arrive at a grand total of net socio-economic action.¹⁹

The strengths of this statement are that it allows for consideration of all aspects of social responsibility. It also allows the reader to evaluate the firm in particular areas. Favorable presentations are limited to actions beyond those legally required or incurred as a cost of doing business.

One disadvantage of this reporting method is the great degree of subjectivity involved in the definition of detrimental activities.²⁰ Also measuring these detriments at the cost of action not taken may be an understatement of the damage done to society.²¹ For instance, it may cost only \$10,000 to install equipment which would eliminate \$100,000 in pollution damage. Also, the reports could perhaps be improved by dividing people relations into employee relations and minority relations. Also, it would be perhaps useful to include a footnote measuring environmental matters by mass or volume.

Another possible method of presenting social responsibility information is the Social Responsibility Annual Report (SRAR) (see

Appendix F) developed by Steven C. Dilley and Jerry J. Weygandt.²² It consists of an opening statement describing the function of the company; a company information statement describing the people who use the company's product, those who work for it, and those who own it; a statement of community impact; a statement disclosing pollutants released; an occupational health and safety statement; a minority recruitment and promotion statement; and a statement of funds flow for socially relevant activities.²³

The company information statement is a report giving the reader a synopsis of the people most directly affected by the operations of the company--the users of their products, the employees, and the stockholders. The users of the products are broken down into persons, businesses, and governmental units, both as a percentage of sales revenue and in physical numbers. The number of union and nonunion employees as well as the average salary of each group is presented. Also stated are the number of shareholders residing in the affected community and the total number of shareholders. The pollution statement states quantitatively all the pollutants spewed forth by the corporation, enumerated by type. It also includes information on the volume of water used and the temperature of that water both when taken from and returned to the environment. The occupational health and safety statement presents information concerning work related illnesses and injuries for the period. It presents the average number of people employed during the period and the sum of hours worked by all employees. After this background information, the statement goes on to state the number of work-related fatalities, number of employees injured on the job, the number of workdays lost from employment related injuries and illnesses. Another presentation in this reporting format is the

minorities recruitment and promotion statement. The statement shows the percentage of various minorities residing in the community. It also presents the percentages of minority workers employed relative to employment in both blue collar and white collar positions. The same data is presented in reference to female personnel. Any special programs for the recruitment and/or promotion of minorities or females is presented in this statement.²⁴

The final statement is a statement of funds flow for socially relevant activities. As the name implies, this statement shows the dollars spent in pursuit of social betterment. It includes only those amounts spent in excess of what would have been spent if the social activities had not been undertaken. This includes such expenditures as the cost of ecologically adapted equipment and material which exceeds the price of normal, unadapted goods. Also included in this statement are dollars spent on research, philanthropy, and employee fringe benefits. The total of these socially gallant dollars is expressed also as a percentage of total sales revenue and advertising expense. The former, to show how much of the revenue generated from sales have been applied to social concerns. The latter, to present company expenditures to help society versus advertising designed to increase future sales by presenting a better public image.²⁵

The primary objective of the SRAR is to accumulate objective and verifiable data on current social issues and to present them in a readable format. It does not purport to reach a judgment, but contains quantitative data that enables the reader to compare one company with another or with the reader's own standards of required performance on a given social issue.²⁶

The major strength of the SRAR is that it covers all issues and does so in such a way that measures the social efforts of the firm both in dollars and in other appropriate quantitative ways. The first six statements all present, in a quantitative manner, socially pertinent data. This method of presentation may be more useful to readers than a dollar and cents social statement, patterned after an income statement or balance sheet. Another strength is that the presentation shows the information of how much was spent on the arrest of social problems in terms of cost, percent of sales, and percent of image expense.

A weakness of the reporting format may be that it may present too much information. The opening statement describing the firm and its products and the statement which presents data on the community where the firm is located could perhaps be omitted without weakening the overall presentation.

FOOTNOTES

¹Francis E. Kastenholz, "An Accountant's View of Corporate Responsibility," Financial Executive, April 1974, pp. 72-74.

²Ibid. ³Ibid. ⁴Ibid. ⁵Ibid. ⁶Ibid.

⁷Ralph W. Estes, "A Comprehensive Corporate Social Reporting Model," Federal Accountant 23 (December 1974):12.

⁸Ibid., p. 10 ⁹Ibid., p. 13 ¹⁰Ibid., pp. 13-15.

¹¹Ibid., p. 15-17. ¹²Ibid., pp. 17, 18.

¹³David F. Linowes, "The Accounting Profession and Social Progress," Journal of Accountancy 136 (July 1973):37-40.

¹⁴Ibid. ¹⁵Ibid. ¹⁶Ibid. ¹⁷Ibid. ¹⁸Ibid. ¹⁹Ibid.

²⁰Ralph W. Estes, "A Comprehensive Corporate Social Reporting Model," In Social Accounting: Theory, Issues, and Cases, edited by Lee J. Seidler and Lynn L. Seidler (Los Angeles: Melville Publishing Co., 1975), p. 189.

²¹Ibid.

²²Steven C. Dilley and Jerry J. Weygandt, "Measuring Social Responsibility: An Empirical Test," Journal of Accountancy 137 (September 1973):64-70.

²³Ibid.

²⁴Ibid.

²⁵Ibid.

²⁶Ibid.

CHAPTER IV

CONSPICUOUS

There is a growing demand for information concerning the social responsibility of corporations. In response to this, companies are making efforts to present socially relevant data. However, most methods to date present only the positive aspects of a firm's endeavors. Also, such methods are generally lacking in both uniformity and consistency. Various professional accounting organizations have established research groups to formulate more comprehensive methods of presentation. Noteworthy models presently used by businesses or proposed by academicians include the Social Action Report, the Social Balance Sheet and Social Income Statement, the Statement of Social Responsibility, the Corporate Social Report, the Socio-Economic Operating Statement, and the Social Responsibility Annual Report.

There is general agreement that periodic statements should be issued to present corporate social activity. Preferably, they should be presented simultaneously with the firm's financial statements. This should not present any great problem since those disclosures which are presently made are made in conjunction with financial statements.

In presenting social information, there seems to be agreement that somehow the negative aspects of a firm's endeavors must be presented. Of the statements reviewed, only the Statement of Social Responsibility does not have this feature. The author concedes that this is a drawback to the statement but contends, "There may well be no good way of evaluating this."¹ However, to not include the detri-

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mental effects of a company's activities is to give less than thorough treatment to its social responsibility. Bauer and Fenn argue that reports of solely a favorable nature may harm the image of business by making its credibility very questionable.²

Another necessary element of a social reporting format is that it presents issues of concern. In order to be accepted as a statement of social responsibility, the report must address those areas with which the reader is concerned. The areas most frequently cited as notable for reporting are community involvement, environmental concern, consumer interests, employee welfare, minority relations, and philanthropy. The reports examined which present information on these issues most thoroughly and in an easily readable manner are the Social Action Report, Statement of Social Responsibility, Socio-Economic Operating Statement, and Social Responsibility Annual Report. The latter is the most thorough in this respect.

Also, such a report should present the information in a quantitative manner. Without quantitative measurement, comparability is difficult to achieve. While dollars are one method of quantifying data, they should not be the only method employed. Such things as pollution may be much more relevant if presented by weight or volume. Also, areas such as minority status and employee job hazards may be presented more relevantly in a statistical, rather than financial manner. In addition to a question as to the value of money as the best medium of quantification, there is a difficulty inherent in converting social data to dollar values. Addressing this problem, the American Accounting Association states it is difficult if not impossible to obtain objective measures of total environmental damage.³ Since it incorporates both

dollar values and other measurements into its quantitative presentation, the Social Responsibility Annual Report appears to have addressed the needs of socially interested investors better than the other reports examined.

An area where prominent authors disagree is on how social improvements should be measured. The question is whether social improvements should be any contribution to society or if they should be limited to those activities or expenditures which go beyond legal or competitive necessity. Of the methods of presentation examined here, only the SEOS proposed by Linowes limits social improvements to the latter method. Linowes argues that expenditures required by law or union contract are necessary costs of doing business and should not be included as a positive activity of a company.⁴ Authors Stanley Hunt, Charles Bendoch, and Michael Cerisano appear to agree that this concept is important.⁵ Many others disagree. Their case is well presented by Francis Kastenholz:

It takes nothing away from social responsibility if the company happens to produce increased revenue or recovers some of its costs in the process. This effect will have to be reported if management's good judgment is to be appreciated by the stockholders and by the financial community.⁶

There is general agreement that there should be periodic, quantitative statements to measure a business's social responsibility. Also quite widely held is the notion that social reporting should entail both the negative and positive aspects of a firm's activities affecting society. Major concerns with which such a report should deal are widely conceived to be environmental concerns, employee welfare, consumer interests, philanthropy, minority relations, and community involvement.

The greatest disagreement comes over whether all benefits generated by a company should enter into its social report or only those generated as a result of true social concern. Of the reports examined, the Statement of Social Responsibility appears to satisfy more criteria than other methods. It presents the negative as well as positive social aspects of a firm's endeavors. In addition, it presents information in the areas of community involvement, environmental concern, employee welfare, minority relations, and philanthropy. In addition, it presents a great deal of information in a quantitative format without converting that information into dollar amounts. This type of disclosure results in fairer presentation than a format which tries to assign a cost to pollutants, minority relations, and worker safety. Such measurements can only result from arbitrary judgments. The financial effect of many types of pollutants are not, in many cases, generally agreed upon by members of the scientific community. Consequently, the presentation of this type of information by a common unit of volume, weight, or mass is more objective than converting this information to a dollar format. This nondollar type of measurement is incorporated into the SRAR. In its approach to presenting a company's social relations with minorities, the SRAR is very thorough. The dollars spent for minority recruitment and advancement programs are presented. Also presented is the percentage of minority employment classified according to occupation. This type of presentation is not subject to the arbitrary assumptions necessary to place a dollar value on discrimination towards minority workers or opportunity costs forgone by minorities.

The SRAR also presents the most objective data concerning employee injuries and work-related illnesses. Disclosing the number of on-the-job fatalities is certainly more objective than assigning a dollar value to the death of that employee. What dollar value would be used--the training costs incurred to date, the cash value of the employee's life insurance, or the pain and suffering money a court of law would award to the employee's family? Similar arbitrary choices would be involved in placing a dollar value on job related illnesses of employees. Certainly presenting job related deaths and injuries results in more objective and fairer presentation than placing arbitrary dollar values on such data.

David Linowes and several other authors advocate a statement presenting social information which presents as assets or favorable items only those expenditures which are not required by law or as a cost of doing business.⁷ Their rationale holds that only those expenditures are motivated by the true social concern of an entity. Therefore, those are the only type of expenditure which should be considered in evaluating the social responsibility of an entity.

This author is of the opinion that all the social aspects, positive and negative, of a firm's endeavors should be included in any statement whose purpose is to present the social impact of a business. Such an approach is more comprehensive in scope. It allows all the positive aspects of a business to be evaluated by interested parties. The good that business does incidental to pursuit of profit should not be overlooked in evaluating its social performance. While such good may not result from pure motivation, it is good nonetheless.

FOOTNOTES

¹Kastenholz, "Corporate Responsibility," p. 74.

²"The First Attempt at a Corporate 'Social Audit,'" p. 92.

³Tipgos, "The Accounting Aspects of Corporate Social Responsibility," p. 237.

⁴Linowes, "The Accounting Profession and Social Progress,"
p. 38.

⁵Stanley M. Hunt, "Conducting a Social Inventory," Management Accounting, January 1975, p. 14; Michael P. Cerisano, "Social Measurement Systems for the Future--A Practitioner's View," CPA Journal 44 (May 1974):28.

⁶Kastenholz, "Corporate Responsibility," p. 70.

⁷Linowes, "Social Progress," p. 38; Hunt, "Conducting a Social Inventory," p. 14; Cerisano, "SMS--A Practitioner's View," p. 28.

APPENDIX A

SOCIAL ACTION REPORT

SOCIAL ACTION REPORT

EMPLOYMENT OPPORTUNITIES

Assets

Company expansion has provided approximately 10,000 new jobs since 1961.

Diversity employment has grown from 5% in 1960 to 25% in 1972.

Women now constitute about 40% of total employment.

Established National Alliance of Businessmen training program which resulted in hiring of 200 disadvantaged and 170 veterans in last 18 months in local area.

Established one of first effective alcoholism control programs for employees in 1964 (now includes drug control program).

Liabilities

APPENDIX A

SOCIAL ACTION REPORT

Financing employment in new plant locations.

Need more upgrading of minority employees from higher labor grade jobs.

Need more upgrading of women employees from higher labor grade jobs.

Closing of work training center after company investment of \$11,000. State and Federal grants to support it were discontinued.

ENVIRONMENTAL CONTROL

Assets

\$3,500,000 water treatment plant completed November 1972.

\$8,000,000 air filtering systems for mills 80% completed.

All 10 new plants added since 1959 were built with all necessary pollution control equipment.

Liabilities

Problem of disposing of semi-solid sludge from new water treatment plant still being researched for a solution.

New brass chip dryer (\$100,000) installed one year ago to reduce air pollution now to comply with new state standards.

COMMUNITY INVOLVEMENT

APPENDIX A

Assets

SOCIAL ACTION REPORT

EMPLOYMENT OPPORTUNITIES

Assets

Charitable contributions averaged 1.2% of company pre-tax net income. Charitable contributions were 8% of common stock dividends.

other such community projects as alcohol and drug control centers, inner city parks, recreational programs, public safety centers.

Company expansion has provided approximately 10,000 new jobs since 1963.

Minority employment has grown from 6% in 1963 to 19% in 1972.

Women now constitute about 40% of total employment.

Established National Alliance of Businessmen training program which resulted in hiring of 280 disadvantaged and 170 veterans in last 18 months in local area.

Established one of first effective alcoholism control programs for employees in 1954 (now includes drug control program).

Liabilities

Fluctuating employment levels still a problem at some plant locations.

Need more upgrading of minority employees into higher labor grade jobs.

Need more upgrading of women employees into higher labor grade jobs.

Closing of work training center after company investment of \$33,000. State and Federal grants to support it were terminated.

ENVIRONMENTAL CONTROLS

Assets

\$3,500,000 water treatment plant completed November 1972.

\$3,000,000 air filtering systems for mills 80% completed.

All 10 new plants added since 1959 were built with all necessary pollution control equipment.

Liabilities

Problem of disposing of semi-solid sludge from new water treatment plant still being researched for a solution.

New brass chip dryer (\$700,000) installed one year ago to reduce air pollution must be modified to comply with new state standards.

COMMUNITY INVOLVEMENT

Assets

Charitable contributions averaged 1.2% of company pre-tax net income over past 5 years (1972 contributions were 8% of common stock dividends).

Support other such community projects as alcohol and drug control centers, inner city parks, recreational programs, public safety committees . . .

Employee participation in such community activities as selectmen, state representatives, school board members . . .

The Company loaned executives to federal, state and local governments in 1972.

Liabilities

Programs to provide more low income housing have not been productive enough for time and money expended.

Not enough rehabilitation of inner city neighborhoods.

Still much to be accomplished in revitalizing core cities, controlling drug addiction, extending educational opportunities to the disadvantaged, etc. . . .

Failure of programs to help youth groups establish minority owned businesses after Company investment of \$20,000.

CONSUMERISM

Assets

Corporate programs utilizing more effective quality control procedures throughout the company have upgraded product performance.

"Dial NuTone" established--a nationwide telephone network to speed up service and customer communications.

Product tags made more informative, and warranties were simplified and clarified.

Liabilities

Improper use of products despite more informative product tags and installation instructions.

Pending or future legislation which may impose more stringent standards for quality and performance.

APPENDIX B

SOCIAL BALANCE SHEET

SOCIAL ASSETS AVAILABLE	1970
Staff	
Available within one year	1000
Available after one year	100
Training Investment	100
Less Accumulated Training Obsolescence	100
Total Staff Assets	1000
Organization	
Social Capital Investment	100
Retained Earnings	100
Land	100
Buildings at cost	100
Equipment at cost	100
Total Organization Assets	500
Research	
Proposals	100
Child Care Research	100
Social Audit	100
Total Research	300
Public Services Consumed Net of Tax Payments	100
Total Social Assets Available	2400
Total Social Liabilities and Equity	2400

APPENDIX B

SOCIAL BALANCE SHEET

SOCIAL INCOME STATEMENT

SOCIAL COMMITMENTS, OBLIGATION APPENDIX B

Staff

SOCIAL BALANCE SHEET

Committed to Contracts within one year	XXX
Committed to Contracts after one year	XXX
SOCIAL ASSETS AVAILABLE	1975
Committed to Administration within one year	XXX
Committed to Administration after one year	XXX

Staff

Available within one year\$XXX
Available after one year	XXX
Training Investment	XXX

Organization

Less Accumulated Training Obsolescence	XXX
Financial Deficit	---
Facilities and Equipment Committed to Contracts and	
Total Staff Assets	XXX

Organization

Social Capital Investment	XXX
Retained Earnings	XXX
Land	XXX
Buildings at cost	XXX
Equipment at cost	XXX
Total Organization Assets	XXX

Research

Proposals	XXX
Child Care Research	XXX
Social Audit	XXX

Society's Equity

Total Research	XXX
Contributed by Stockholders	---
Generated by Operations	---

Public Services Consumed Net of Tax Payments XXX

Total Social Assets Available\$XXX

Total Commitments, Obligations and Equity

SOCIAL COMMITMENTS, OBLIGATIONS, AND EQUITY

Staff

Committed to Contracts within one year	\$XXX
Committed to Contracts after one year	XXX
Committed to Administration within one year	XXX
Committed to Administration after one year	XXX
<hr/>	
Total Staff Commitments	XXX

Organization

Working Capital Requirements	XXX
Financial Deficit	---
Facilities and Equipment Committed to Contracts and Administration	XXX
<hr/>	
Total Organization Commitments	XXX

Environmental

Pollution from Paper Production	XXX
Pollution from Electric Power Production	XXX
Pollution from Automobile Commuting	XXX

<hr/>	
Total Environmental Obligations	XXX
<hr/>	
Total Commitments and Obligations	XXX

Society's Equity

Contributed by Staff	XXX
Contributed by Stockholders	XXX
Generated by Operations	XXX

<hr/>	
Total Equity	XXX

<hr/>	
Total Commitments, Obligations and Equity	\$XXX
<hr/> <hr/>	

SOCIAL BENEFITS AND COSTS TO GENERAL PUBLIC:

Social Benefits to General Public:

Federal Taxes Paid	SOCIAL INCOME STATEMENT	XXX
State Taxes Paid		XXX
Contributions to Knowledge Publications, Presentations, etc.		XXX

SOCIAL BENEFITS AND COSTS TO STAFF: 1975

Social Benefits to Staff:

Health Insurance, Life Insurance, Sick Leave	\$XXX
Career Advancement	XXX
Company School and Tuition Reimbursement	XXX
Vacation, Holidays, Recreation	XXX
Food Service, Child Care & Parking	XXX
Quality of Life (Space and Space Quality)	XXX

Total Benefits to Staff XXX

Social Costs to Staff:

Layoffs and Other Involuntary Terminations	XXX
Overtime Worked but Not Paid	XXX
Inequality of Opportunity	XXX

Total Costs to Staff \$XXX

SOCIAL BENEFITS AND COSTS TO COMMUNITY:

Social Benefits to Community:

Local Taxes Paid	XXX
Environmental Improvements	XXX
Local Tax Worth of Net Jobs Created	XXX

NET SOCIAL INCOME TO STAFF, COMMUNITY, PUBLIC AND CLIENTS

Total Benefits to Community XXX

Social Costs to Community:

Local Taxes Consumed in Service	XXX
---	-----

Net Social Income (Loss) to Community: XXX

SOCIAL BENEFITS AND COSTS TO GENERAL PUBLIC:

Social Benefits to General Public:

Federal Taxes Paid	\$XXX
State Taxes Paid	XXX
Contributions to Knowledge (Publications, Presentations, etc.)	XXX
Federal & State Tax Worth of Additional Jobs Created	XXX

Total Benefits to Public	XXX
------------------------------------	-----

Social Costs to General Public:

Federal Services Consumed	XXX
State Services Consumed	XXX

Total Costs to General Public	XXX
---	-----

Net Social Income (Loss) to General Public:	\$XXX
---	-------

SOCIAL BENEFITS AND COSTS TO CLIENTS:

Social Benefits to Clients:

Value of Contracts to Clients	XXX
---	-----

Social Costs to Clients:

Contract Revenue as Opportunity Cost	XXX
--	-----

Net Social Income to Clients:	\$XXX
---	-------

NET SOCIAL INCOME TO STAFF, COMMUNITY, PUBLIC AND CLIENTS	\$XXX
---	-------

APPENDIX C

STATEMENT OF SOCIAL RESPONSIBILITY	XXX
ENVIRONMENTAL PROTECTION	XXX
Pollution control equipment (cost less depreciation)	XXX
Manpower (including executive time)	XXX
Additional cost of products due to system	XXX
Supplies	XXX
Research and development	XXX
Interest or bonds for purpose	XXX
Depreciation expense	XXX
Total expense	XXX
Less: Income from resulting byproducts	XXX
Net expense	XXX

CONSUMER RELATIONS APPENDIX C

STATEMENT OF SOCIAL RESPONSIBILITY	XXX
Research and development	XXX
Manpower (including special services)	XXX
Special promotion, advertising, packaging	XXX
Total expense	XXX

MINORITY EMPLOYMENT	XXX
Training facilities and supplements	XXX
Supplies	XXX
Manpower (including executive time)	XXX
Operation of day-care center	XXX
Depreciation expense	XXX
Total expense	XXX

MINORITY BUSINESS SUPPORT

APPENDIX C

Losses and investments

Bad debts and

STATEMENT OF SOCIAL RESPONSIBILITY

ENVIRONMENTAL PROTECTION

Pollution control equipment (cost less depreciation)	\$XXX
Manpower (including executive time)	XXX
Additional cost of products due to system	XXX
Supplies	XXX
Research and development	XXX
Interest on bonds for purpose	XXX
Depreciation expense	XXX

Total expense	\$XXX
Less: Income from resulting byproducts	XXX

Net expense	\$XXX

CONSUMER RELATIONS

Research and development (consumer studies)	XXX
Manpower (including special services)	XXX
Special promotion, advertising, packaging	XXX

Total expense	\$XXX

MINORITY EMPLOYMENT

Training facilities and supplements	XXX
Supplies	XXX
Manpower (including executive time)	XXX
Operation of day-care center	XXX
Depreciation expense	XXX

Total expense	\$XXX

MINORITY BUSINESS SUPPORT

Loans and investments	XXX
Bad debts and losses	XXX
	—
	XXX
Extra costs for buying from minority suppliers	XXX
	—
Total expense	\$XXX

CONTRIBUTIONS AND COMMUNITY INVOLVEMENT

Health, education, housing, transportation	XXX
Poverty programs	XXX
Urban development	XXX
Manpower (including on-job time only)	XXX
	—
Total expense	\$XXX

CONSERVATION

Landscaping and supplies	XXX
Research and development	XXX
Additional production costs	XXX
	—
Total expense	\$XXX

TOTAL SOCIAL RESPONSIBILITY EXPENSE	\$XXX
-------------------------------------	-------

APPENDIX B

CORPORATE SOCIAL REPORT

Social Benefits:		
Social services		
Products and services provided		
Payments to other elements of society --		
Employment provided (salaries and wages)	1234	
Payments for goods & other services	567	
Taxes paid	890	
Contributions	123	
Dividends & interest paid	456	
Other payments	789	2345
Services to employees	678	
Improvements in environment	901	
Staff services donated to others	234	
Equipment & facilities services	567	
Other benefits	890	
Total Social Benefits		3456

APPENDIX D

CORPORATE SOCIAL REPORT

Social Costs:		
Basic services		1234
Raw material purchases		567
Building & equipment purchases		890
Other goods & materials used		123
Payment from other elements of society --		
Payments to corporate for goods & services	456	
Additional capital investments	789	
Loans	123	234
Other payments	567	

		APPENDIX D	
Environmental damage --			
Terrain damage		\$XXX	
Air pollution		XXX	
Water pollution	CORPORATE SOCIAL REPORT	XXX	
Noise pollution		XXX	
Solid waste		XXX	
Social Benefits:		XXX	\$XXX
Other environmental damage		XXX	
Products and services provided			
Payments to other elements of society --			
Employment provided (salaries and wages)		\$XXX	
Payments for goods & other services		XXX	
Taxes paid		XXX	
Contributions		XXX	
Dividends & Interest paid		XXX	
Other payments		XXX	XXX
Services to employees		XXX	XXX
Improvements in environment		XXX	
Social Surplus (Deficit) for the Year			\$XXX
Staff services donated to others		XXX	
Accumulated Surplus (Deficit) for Company, prior years			XXX
Equipment & facility services donated		XXX	
Other benefits		XXX	XXX
Total Social Benefits			\$XXX
Social Costs:			
Human services		\$XXX	
Raw material purchases		XXX	
Building & equipment purchases		XXX	
Other goods & materials used		XXX	
Payment from other elements of society --			
Payments to company for goods & services		XXX	
Additional capital investments		XXX	
Loans		XXX	XXX
Other payments			

Environmental damage --		
Terrain damage	\$XXX	
Air pollution	XXX	
Water pollution	XXX	
Noise pollution	XXX	
Solid waste	XXX	
Visual pollution	XXX	
Other environmental damage	XXX	XXX

Public services used		XXX
Public facilities used		XXX
Work-related injuries and illness		XXX
Other social costs		XXX

Total Social Costs		XXX

Social Surplus (Deficit) for the Year		\$XXX
Accumulated Surplus (Deficit) for Company, prior years		XXX

Total Accumulated Surplus (Deficit) for company		\$XXX
		=====

APPENDIX E

SOCIO-ECONOMIC OPERATING STATEMENT

I. Relations with people

A. Improvements:

- 1. Training program for handicapped workers
- 2. Contribution to black college
- 3. Extra turnover costs because of minority wage program
- 4. Cost of nursery school for children of employees, substantially net up.

Total improvements

B. Less detriments:

Postponed installing new safety devices of existing machines (cost of devices)

C. Net improvements in people actions for the year

II. Relations with environment

A. Improvements:

- 1. Cost of reclaiming and land-clearing old dump on company property
- 2. Cost of installing pollution control devices on Plant A smokestack
- 3. Cost of desulfurizing waste from fluidizing process this year

Total improvements

APPENDIX E

SOCIO-ECONOMIC OPERATING STATEMENT

1. Cost that would have been incurred to re-landscape strip mining site used this year \$ XXX

2. Estimated cost to have installed purification process to neutralize poisonous liquid being dumped into stream XXX \$ XX

I. Relations with people

A. Improvements: environment actions for the year

- 1. Training program for handicapped workers \$ XXX
- 2. Contribution to black college XXX
- 3. Extra turnover costs because of minority hiring program XXX
- 4. Cost of nursery school for children of employees, voluntarily set up. XXX

Total Improvements \$ XXX

B. Less detriments:

Postponed installing new safety devices on cutting machines (cost of devices) XXX

C. Net improvements in people actions for the year \$ XXX

II. Relations with environment

A. Improvements:

- 1. Cost of reclaiming and landscaping old dump on company property \$ XXX
- 2. Cost of installing pollution control devices on Plant A smokestacks XXX
- 3. Cost of detoxifying waste from finishing process this year XXX

Total improvements \$ XXX

B. Less detriments:		
1. Cost that would have been incurred to re-landscape strip mining site used this year	\$ XXX	
2. Estimated cost to have installed purification process to neutralize poisonous liquid being dumped into stream	XXX \$ XXX	
		(\$ XXX)
III. Relations with product		
A. Improvements:		
1. Salary of VP while serving on government product safety commission	\$ XXX	
2. Cost of substituting lead-free paint for previously used poisonous lead paint	XXX	
Total improvements		\$ XXX
B. Less detriments:		
Cost of safety device recommended by safety council but not added to product		XXX
C. Net improvements in product actions for the year		\$ XXX
Total socio-economic deficit for the year		(\$ XXX)
Add: Net cumulative socio-economic improvements as of beginning of period		\$ XXX
Grand total net socio-economic actions to end of period		\$ XXX

SOCIAL RESPONSIBILITY ANNUAL REPORT

4

Name of Company:
 Operating revenue:
 Net operating income:

Electric sales revenue (1)
 Number of electric customers
 Gas sales revenue (1)
 Number of gas customers
 Number of employees:

Age of company:
 Average salary of employees:

Community ownership:

Subsidiary ownership (with
 Stock inventories of
 nonutility companies)

Gas-electric public utility

\$ XXX
 \$ XXX

Residential

XX.X
 XXX
 XX.X
 XXX

Electric sales revenue (1)

Number of electric customers

Gas sales revenue (1)

Number of gas customers

Number of employees:

Age of company:

Average salary of employees:

Community ownership:

Subsidiary ownership (with
 Stock inventories of
 nonutility companies)

Industrial and
 Commercial

XX.X
 XXX
 XX.X
 XXX

Government and
 Institutions

XX.X
 XXX
 XX.X
 XXX

Subject to union contracts
 Supervisory and professional staff

None

Percent of union population

Subject to union contracts

Supervisory and professional staff

None

Community

XX.X
 XXX

None

None

APPENDIX F

SOCIAL RESPONSIBILITY ANNUAL REPORT

Type of Company:
 Operating revenue:
 Net operating income:

Gas-electric public utility
 \$ XXX
 \$ XXX

Residential Industrial and commercial Government and institutional Misc.
 XX.X XX.X XX.X XX.X
 XXX XXX XXX XXX
 XX.X XX.X --- XX.X
 XXX XXX --- XXX

Electric sales revenue (%)
 Number of electric customers
 Gas sales revenue (%)
 Number of gas customers
 Number of employees:

Subject to union agreements
 Supervisors and professional staff

Total
 Percent of community population

Age of company:
 Average salary of employees:

Subject to union agreements
 Supervisors and professional staff

Total Community
 XXX XXX
 None None

Community ownership:

Common stockholders:
 Number of stockholders holding greater than 5 percent of outstanding shares:

Subsidiary companies owned:
 Stock investments in nonsubsidiary companies:

None
 None

EMISSIONS OF AIR POLLUTANTS
(in millions of pounds)

1971

Particular Matter

	<u>Coal</u>	<u>Oil</u>	<u>Gas</u>	
Total population of community				XXX
% of 1971	X.XX	.XXX	.XXX	X.XXX
% of 1970	X.XX	.XXX	.XXX	

Total number of employees: XXX

Sulfur Oxides

	<u>Coal</u>	<u>Oil</u>	<u>Gas</u>	
Total number of employees				XXX
% of 1971	X.XX	.XXX	.XXX	X.XXX
% of 1970	X.XX	.XXX	.XXX	

Total number of all employees: X.XXX

Nitrogen Oxides

	<u>Coal</u>	<u>Oil</u>	<u>Gas</u>	
Total number of supervisory and professional employees				XXX
% of 1971	X.XX	.XXX	.XXX	X.XXX
% of 1970	X.XX	.XXX	.XXX	

Total number of female employees: XXX

Subject to union contracts: XXX

UTILITY COMPANY

% of all employees subject to union contracts: X.XXX

Occupational Health and Safety Statement for the
Period July 1, 1971, to December 31, 1971

Average number of employees during the period:	XXX
Total hours worked by all employees	XXX
On-the-job fatalities during the period:	None
Number of workdays lost due to on-the-job injuries:	XXX
Number of employees affected:	XXX
% of total employees:	X.XX%
Number of workdays lost due to occupational illness:	XXX
Number of employees affected:	XXX
% of total employees:	X.XX%

UTILITY COMPANY

Minorities Recruitment and Promotion Statement

1971

Total population of community:	XXX
% minorities:	X.XX%
Total number of employees:	XXX
Total number of minority Negro and Spanish-surnamed employees:	XXX
Subject to union contracts:	XXX
% of all employees subject to union contracts:	X.XX%
% of all employees:	X.XX%
Supervisory and professional staff:	XXX
% of all supervisory and professional staff:	X.XX%
% of all employees:	X.XX%
Total number of female employees:	XXX
Subject to union contracts:	XXX
% of all employees subject to union contracts:	X.XX%
% of all employees:	X.XX%
Supervisory and professional staff:	XXX
% of all supervisory and professional staff:	X.XX%
% of all employees:	X.XX%
Special minority recruitment and advancement programs:	
Negroes and Spanish-surnamed employees:	XXX
Dollars spent:	\$ XXX
Females:	XXX
Dollars spent:	\$ XXX
As a percentage of 1971 operating revenues:	X.XX%
As a percentage of 1971 advertising expenses:	X.XX%

UTILITY COMPANY

Statement of Funds Flow for Socially Relevant Activities

1971

<u>Environmental</u>		
Installation of electrostatic precipitators		\$ XXX
Construction of power plants		XXX
Construction of transmission lines		XXX
Electrical substation beautification		XXX
Incremental cost of low-sulfur coal		XXX
Conversion of service vehicles to use of propane gas		XXX
Incremental cost of underground electric installations		XXX
Incremental cost of silent jackhammers		XXX
Environmental research ---		
Thermal	\$ XXX	
Nuclear	XXX	
Other	XXX	
	<hr/>	
Subtotal		\$ XXX
		<hr/>
Total environmental funds flow		\$ XXX
<u>Other Benefits</u>		
Charitable contributions		\$ XXX
Employee educational and recreational expenditures		XXX
Total other benefits		XXX
<u>Total 1971 funds flow for socially relevant activities</u>		\$ XXX
As a percentage of 1971 operating revenues		X.XX%
As a percentage of 1971 advertising expenses		X.XX%

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