



Social Accounting Challenges and Strategies for Implementation in Iran

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Abstract

Historically, organizations have been stable by the approach of creating profits for their stakeholders, but today, this approach is by no means sufficient to guarantee survival. In the modern world, organizations of any scale in any market, for their survival must gain and retain the community's satisfaction and this satisfaction can be obtained only if communities believe that organizations' operations, leave beneficial impact on human and environment; therefore, organizations' social responsibility is the main factor of company survival and in long-term, leads to company permanence in the organization. Traditional accounting with emphasis on measurement, transaction reporting and economic events of the entities, ignores the social transactions of the entities with communities on the outskirts of them. The ultimate goal of social accounting is measurement and reporting resources, costs and social benefits. So it tries to express quality conditions affecting on the community in terms of numbers and figures. This article, using descriptive method, firstly, explains social accounting, its goals and assumptions, then, expressing social profitability of accounting information amount, declares its current position and social accounting system implementation problems in Iran.

Key words: Social Accounting, Usefulness of Social Information, Problems of Social Accounting, Social Accounting Position.

1. Introduction

Although profit is interesting and pleasure, it's not praise-worthy when achieved at the cost of water and air pollution and environment damage. It must not be appreciated, if economic return leads to people life's and communities' destruction. Not only these matters are not separate and irrelevant events, but also they are, to some extent, related and dependent. This bad news is a heavy expense which is paid by the universe for its good news (Setayesh & Mohammad Hossein, 2002). Social accounting, a solution for these problems, attempts to extend traditional accounting range, considering decision accounting results such as their economic affects and to achieve these goals needs the new criteria for social goals definition and progress assessment. It also tries to identify these mutual effects of entities and their surrounding society, and report for more correct decision making of users of financial statements (Khoshtinat et al., 2004). The ones, who are beneficiary groups' benefits proponent, believe that traditional accounting, in which the stakeholders' benefits are emphasized, is nothing but a subset of social accounting in which more groups of beneficiaries are emphasized (Hendriksen, 1992).

Organization social responsibility (OSR) issue has been raised before social accounting issue. Social responsibility means a sense of commitment by the organization manager so makes decision that improves the whole society welfare level; besides, gains benefit for the institution (Poorrashidi, 2009 quoted from Davis, 1984). Almost every one agrees that the companies must, socially, be responsible for their affairs, even if it may be said that such an opinion is, exclusively, generalized form of the accepted universal principles" Individuals and groups must consider the effect of their own actions on the others (Khoshtinat, 2004). It is a necessary and vital factor to move along environmental and social responsibility, leading to organization activity continuity in long-term (Poorrashidi, 2009). At first, social accounting was noticed, as one of the financial reporting goal, by true blood report. Subsequently, American Association Accounting made a study on 195 of its members, in 1976 and announced that 71 percent of the responses are agreed with the necessity of an accounting system for the company's social operation. 90 percent showed that both numeral measurement and social operation are required. (Khoshtinat, 1994).

The expansive studies and researches in last 2002 by Hawas Water Prise Institution, in international level, indicated that almost 70 percent of senior managers believe that to show company social responsibilities is highly affecting on profitability of the company activities (Asadpour, 2012). Also, in an important political movement, 2005 was named as social responsibility year for EU countries by the European Commission. Britain Government, in the industrial and trade department, has introduced the agent (minister) of the companies social responsibility, too. Recently, also, in Iran, some factors such as freedom of economic space and some industries, being more competitive, made companies pay attention to the issues as responsibility against employees, consumers and society and consider these stakeholders' benefits in their plans and activities. However, this concept, in its modern outline as a directorial process and concept, is so new and novel, in Iran. On one hand, the industrial economic structure of Iran's political-economic space is so that the companies not only count the social responsibility as a kind of expense, but also believe that it leads to lag from competitive space. On the other hand, as a result of the mentioned reasons, many firms and also public companies don't observe the minimum rights of employees and consumers and stakeholders and owners. Here, the government



role, having very spread and various devices, becomes important and can encourage the companies to observe these minimums. (Omidvar, 2008). As the managers, mainly, consider the company's profitability and limiting expenses the more, try to increase the company's benefits; therefore, it's obvious that they, spontaneously, don't follow issues related to social expenses and compensation to the environment, unless, as some countries, the essential legal requirements regarding this issue, force them to implement the related regulation and guidelines. On one hand, if the company has to pay for the damage to environment, consider it as uncontrollable expenses and managers' performance evaluation won't include such expenses (Khoshtinat, 1994). Nowadays, in competition world, companies' social responsibility issue has become dominant paradigmatic in companies helm field. (Omidvar, 2008). Organization must extend the social sense and human values so that it is along with its economic values (Poornashidi, 2009 quoted from Davis, 1984).

2. Research Literature

2.1. Organizational deviance

Organizational deviance includes many kinds of abnormal behavior that some forms of it occur in any society. Organizational deviance means illegal actions which leads to financial losses, physically and environmentally and is done by an organization or company against its employees, people, environment, other organizations and companies, government and even the other countries (Mohave khoo, 2009 quoted from Frank and Lynch, 1992). Organizations' economic deviance includes deviance against customers, deviance against g deviance and deviance against environment. (Mahdavi khoo, 2009 quoted from Thio, 2001). The last item of the mentioned items is one of the reasons for development of social accounting.

2.2. Social Accounting Definition

Social accounts are more similar to combination of numbers and non- financial information and description of non- numeral information; although, may include financial information. Social accounting is not a quite reasonable and non-contradictory activity or environment; therefore, it's difficult to define it (Heydari, 2010 quoted from Dwyer, 2005). American Association Accountants (AAA) Definition: "The main focus of social accounting is on company trade effects reporting and measuring on society and physical environment. Social accounting refers to measuring (monetary and non-monetary units) activities' pleasant and unpleasant effects. Social accounting, apparently, includes cost-benefit measurement and general activities and social plans reports (Asadpour, 2012). Social accounting is collect, measure, and transactions report process and mutual effects of these transactions between entities and its society around. Social accounting , measuring and reporting mutual effects of entities and its society around , makes evaluation of ability to perform social obligation possible (Jafari, 1993).

2.3. Social Accounting History

Social accounting concept was proposed, theoretically, in early 60. This concept, in USA, was initiated by American Association Accounting, in early 70, in order to explore the barriers and difficulties related to reporting and measuring process of social accounting (Hemmatfar, 1993). In this period, the companies such as General Motors and Bank of America experienced the social reporting. In 80 decade, social reporting was decreased. One of the reasons was that, in this decade, trade benefit was dominated on pressure for social reporting and that was why many companies lost their benefits (Heydari, 2010). Now, although passing four decades, this concept is still of the newest accounting discussions and it performance and appliance has little progress.

Nikolaou and Evangelinos (2010) in their research, titled "Classifying current social responsibility accounting methods for assisting a dialogue between business and society", discussed the drawbacks of current social and environmental accounting methods and presented a classification for developing a new accounting model. Their findings indicated that current social and environmental accounting methods utilize different criteria, measurement units and principles, a fact that makes the information provided ambiguous and problematic for a reliable business-society dialogue under a common and understandable context.

The Kyoto Protocol of 1997 is the first global agreement to set greenhouse/carbon emission reduction targets for countries. And Lodhia (2011) in his paper, titled "Why we need carbon pricing. A social and environmental accounting perspective", argued for carbon pricing through the social and environmental accounting literature with a focus on the middle of the road perspective and a need for accountability stated that using this pricing, the companies can reduce the amount of emissions. Rather than merely looking at the business case scenario through exclusive emphasis on the economy and jobs or proposing a radical overhaul of current systems that have provided the foundations for business development over centuries, emphasis is on taking a measured approach toward combating climate change. It's also necessary for the organizations to present an account of the amount of their Carbon emissions. Islam and Dellaportas (2011) in their research , titled " Perceptions of corporate social and environmental accounting and reporting practices from accountants in Bangladesh" , studied to elicit accountants' perceptions regarding corporate social and environmental accounting and reporting practices in a developing country such as Bangladesh. His findings indicated that although accountants have positive attitudes toward corporate social and environmental accounting, progress is limited.

Finally, Accountant International Federation, because of pressure of human right and environmentalist organizations in industrial countries in order to oppose against environmental pollution , especially pollutions resulted of nuclear experiments, focused more on social accounting and issued statement in which it demanded standards relating to social accounting and auditing.

But, in our country, this concept, like the other affairs, by three decade of delay, was proposed, for the first time in autumn 1372, in Tehran University Journal of accounting studies by an essay named social accounting theory (Hemmatfar, 1993).

2.4. Social accounting goals

1. Periodic measurement and determination of net social benefits in an individual institute which contains social expenses and internal incomes for the institution and increase of external savings in social sections
2. Society economic resources are limited, so it's necessary to reach maximum productivity in applying any using them so that the social benefit of their use is more than social expenses.
3. The goods, which were free before, will not be available such free any more. For example, for the pure water and air heavy expenditure of regulations to control environmental pollution and self-purification operations is required. So the entity must provide benefits to the community for using it.
4. It's certain right to be aware of social obligation amount of entity to itself and also the amount it's been done and this awareness needs to be according to principles and basics of accounting reporting. (Hemmatfar, 1993).

2.5. Social Reporting

Disclosure and social reporting is community awareness tool about organization and company's social responsibilities (Asadpour, 2012).

Company's social reporting is the process of correlating environmental and social effects of organization economic activities to beneficiary group in community or to the whole community (Setayesh and Mohammad, 2002).

Generally, two kinds of social reporting , financial and non-financial , are considered that because of problem related to quantifiable social transactions effects (Expenses, benefits and so on), non-financial models are still used (Khoshtinat , 2004).

2.6. Reasons for disclosure of Social information

Belkaui (1943) counts the following reasons for calculation and disclosure of social performance information:

1. The first reason is based on social contracts; this is implicitly acceptable that the organization must operate in a way that social welfare reaches to be maximum level, as if there is a social contract between organization and community.
2. Second reason is based on fair theory; fairness is a pleasant matter in social accounting.
3. Third reason is presented based on users' needs. Basically, users of financial statements need social information to decide about assignment of their income.
4. Forth reason is social investment. Basically, it is assumed that investor group, being pro- ethics, emphasis on social information presented in annual reports and make investment decision based on it.

2.7. Benefits of Social Accounting information

KHoshtinat has divided social accounting user groups to following seven groups: Investors, creditors, employees, analysts, business parties, government and public. Different researches, made to determine social information broadcast influence amount on investors' decision making, have been made, generally, around three social theories: Legitimacy theory, stakeholders theory and political economy theory. These studies have concluded that social accounting information had, reasonably, influenced on investment decisions. "Reasonable " means information disclosure logically not too much (KHoshtinat, 2004 quoted from Wartick, 1985). For example , one of these studies (Jaggi and Freedman, 1986) have indicated that wide range of information broadcast related to environmental pollution amount have little impact on decision making related to investment in environment polluter industries (Khoshtinat, 2004). Meanwhile, social issues must be quite explicit and clear in order to able to present the necessary news, well. For example, one of the reports (Wiseman, 1982) suggested that incomplete disclosure of social issues may lead to users' misdirection. It also concluded that disclosure related to environmental issues is, mainly, incomplete (Khoshtinat, 1994).

Belkaui (1943) believes that the form of companies' social reporting must be choosing appropriated to the activity type and specific emphasis on social issues. Because as experience shows kinds of expenses and social benefits influence on investment decision making, differently. according to a research by Long streth and Rosenbloom , 57 percent of investing decisions by financial analysts are made based on social factors. A research is also done in Iran suggesting that social reporting will influence investors' decision, 26 to 38 percent; therefore, it can be concluded that social accounting affect individuals' investment decision; however, this effect is not considerable (Khoshtinat , 2004).

3. A brief about social accounting matrix

A Social Accounting Matrix (SAM) is a framework for analytical presentation of economic data jointly with other relevant data such as data on social conditions or the environment—as an integrated whole. Historically, social Accounting matrixes have been have been produced by developing countries more than for developed countries (Statistics Canada, 2012). Cardenet (2012) in his research, titled "Energy Intensities and Carbon Dioxide Emissions in a Social Accounting Matrix Model of the Andalusian



Economy", calculates energy intensity and carbon dioxide (CO) emissions in Andalusia, the largest and most populated region of Spain. Energy intensities for five energy commodities used in production activities are calculated using a social accounting matrix model with three alternative scenarios. The counterfactual experiments indicate that a 26.5% cut in the size of direct energy requirements would have made it possible to maintain constant emissions. They also indicate that efforts to curtail emissions should be focused on improving efficiency in coal extraction and combustion and oil refining.

In fact, social accounting matrix is matrix expression of financial accounting emphasizing on social dimensions of types of exchanges in real and financial sections and is advised as a statistical tool for analysis and resolution of the role of economic institutions, especially families to develop and distribute incomes. It'll be also possible to review economic policies' impacts on families and the other economic institutions. In this regard, and in order to accomplish National Accounts collection of Iran, "Iran's economic social accounting matrix in 1378" will be prepared and the results will be published in order to be utilized. (Central Bank Of The Islamic Republic Of Iran, 1999)

3.1. Companies' social responsibility in Iran

Although new and modern concept of companies' social responsibility has not been proposed , in Iran , for none of the mentioned players such as companies, government and civil society, this concept also exists, for Iranian companies, in notions endowment and Interest-free loans, Patriarchal role of invest-holders, and charity helps and ... , individually and personally and based on moral and common values. Iranian companies can, in the field of corporate social responsibility be divided to four groups as follow:

1. **Irresponsible:** in this level, the companies, never ever, follow up the common customs and laws and generally accepted standards such as smuggler companies.
2. **With minimum responsibility :** In this group , companies have the least Conflict with state and local laws ; in the other word , these companies , to some extend , disobey the laws such as : production safety minimum wages and ... and if state law is not compulsory and binding , they not only won't obey these items, but also consider them as additional costs for themselves ; such as some mineral companies.
3. **Incomplete:** In this group, the companies do not openly conflict with laws and are involved in some limited activities which can be considered as social responsibility. ; this group of companies, for example, sometimes help the charities or Enhance the quality of their products and gain the ISO 9000 certification. To these companies, cooperation in social responsibility activities is an incomplete and temporary issue than a long-time strategy.
4. **Strategic:** These companies' trait is to deploy systematically in various areas in order to have superior performance and their motivation is strategic and or instrumental; means they specifically cover the areas they believe leads to increase company financial performance. These companies mostly have strong ethical guidelines. They seek for ways of coping with environment through programs such as ISO 14000; recycling plans, create the solution for wastes use and further development of green products. (Omidvar , 2008)
5. **Iranian government policy making to promote corporate social responsibility:** The first step to policy is exact recognition of issue or policy nature. Thus, in Iran, in order to policy making to promote corporate social responsibility field, we must, firstly, examine which concept of corporate social responsibility is considered and for us to where the concept of corporate social responsibility limits is. Whether we find corporate social responsibility in charity helps and help local community or find this concept as a trade strategy for companies which can bring competitive benefit for them or this concept is found as a part of a company's responsibility and duties which can reduce a part of government responsibility and duties.

The second step to policy, in order to promote corporate social responsibility, is to consider and notice to the private section, companies and government potentials and abilities on one hand and on the other hand the performance, for example, in Iran because of the bold role of tradition and religion, both ethics and performance have impact on managers' motivation to acceptance and afford to responsiveness and social responsibility. These two factors must be considered as catalysts in promoting corporate social responsibility. The third point must be noted is that, in Iran, to promote the corporate social responsibility, one can not just rely on it, being voluntary. Voluntary CSR creates willingly control problems. Necessary laws and regulations are still required to compensate environmental underdevelopment and to enact executive standards for some items that are disadvantageous to public benefits. Many Iranian companies still do not respect the least standards and minimum wage of beneficiaries, that's why it can not be expected that the beneficiaries despite being voluntary do social responsibility activity, too. On the other hand, because the policies and rules in the game winner - winner between the companies in Iran has not been formed, one can not just rely on voluntary social responsibility and voluntary activities can not be regarded as an effective alternative to governmental laws.

The fourth point is that corporate social responsibility must be proposed as a commercial strategy and a commercial value for the companies which is able to gain competitive benefits for them and in order to develop this concept, link it to company relational strategies with political, social and economic beneficiaries. The other point is that in order to promote social responsibility should not be relied only one type of politics, but a collection of encouraging, punitive, empowering, monitoring, persuasion and motivating policies combination must be applied (Omidvar, 2008).



3.2. Social accounting system implementation problems

Regarding lack of a determined law and Lack of public acceptance in a specific method for social reporting, following items may be considered as reasons for lack of progress in social reporting:

1. Not specified type of report, including financial and non-financial
2. Not specified amount of presented information (how much information is enough)
3. Not specified a clear criteria and indicators to compare the companies with each other
4. Lower quality of available reports and social reports as taste because of absence of clear law
5. Separation of the social costs and economic costs
6. Disability of the providers of these reports to establish a relationship between social costs and social benefits obtained from it

Described targets and concepts provide the necessary framework to plan and execute the social accounting system; meanwhile, Complicated and ambiguous issues in macro and micro level must be resolved before social accounting implementation. In macro level, these issues include development of social standards and goals in order to complete social accounting framework, regarding level and nature of the operations of each entity. It is obvious that it's not accounting duty to develop social standards and values and entity policies ; however , accounting researchers must , through cooperation and catching sociologists, political scientists, economists and philosophers opinion, take an action to gather a collection of social standards, values and goals for social accounting system plan. How to match strategies and entity production methods with social norms must be considered, too. (Jafari, 1993).

By the way, the matter is that CSR is not always practical and positive. One of problems of companies' interference in social affairs is their impact on the existing values of society. Social responsibility provides the required context so that the companies impose their own values community and define their desired value of new communities in accordance with their ideals. If this occurs among companies, they compete to improve their credibility and legitimacy, and also to accord community values with theirs and each attempt to promote their favorite values. The false recognition of this regard companies show to community, may turn them away from their original value ; therefore , strategies and policies are required so that explain the companies how to do their duties and what activities In this area to do (Omidvar, 2008). In micro level, quantifiable and How to measure transactions, resources and social rights and social performance assessment are of complicated and ambiguous problems which should be solved. As mentioned before, accounting researchers are seeking for measuring and formulating these types of transaction, social rights and resources and some results have been gained up to now; however, this is a problem essentially with this amount of information exists in the Social Sciences . If the problem and social consequences can be quantitatively formulated, social accounting will also be completed more (Jafari, 1993).

3. Conclusions and recommendations

As the community expectations of organizations has unbelievably increased from 1960 and in order that organizations reduce the gap between the community expectations and their responsiveness, it is essential for them to increase their social participation. Social responsibility performance strategy is a two-way win- profited strategy, because organization helping resolve social problems has eventually helped itself and with short-term costs has been achieved to long-term interests. So it is a competitive advantage, consequently, if the organization evade of performing social responsibility, gradually its social power will reduce and will be dominated by the other groups. In Iran, these concepts in its modern form as a concept and process management are very fresh and new. Industrial economic structure existing in Iran's economic- politic space is as so the companies not only consider social responsibility activities costs, but also they believe it makes them far from competitive space.

4.1 Recommendations

Theories related to CSR emphasis on this matter that if disclosure of information related to social impacts of company activities being optional, managers are only willing to offer information that shows Positive aspects of the activity so that be able , through this, to draw a favorable image of the company, in the minds of the community . Therefore, it's necessary disclosure of information about the social impacts caused by the activities of organizations and companies to be compulsory by the authorities. Failure to implementation f social reporting and accounting causes the denial of the facts available in the company and may lead to misdirection of users and, consequently, not assign optimal resources. Researches indicate that social accounting information is affective on investor decision, but as several parameters influence their final decisions, the role of social information will be inconsiderable. Meanwhile, disclosure of this information must be reasonable and also quite explicit and clear, because ambiguous information, by itself, will mislead the users; therefore, effect amount can be increased by more useful and more appropriate information. But meanwhile, there are also micro and macro problems. In order to develop social goals and social criteria, measure and formulate the social transactions, and also this matter that companies may, in competition with each other, embark on promoting value of their favorite and turn away from their original values, strategies and policies are needed to express to the companies that how to do their duties and what activities, in this matter, to do. In developing countries as Iran, because of feeble civil society and non-governmental organizations scattered and dispersed , government can , enabling and capacity madding on NGO, use this section as complementary arm of its policy and companies mainly, , receive monitoring of the civil



society because of the long history of government monitoring . It's interesting that companies, in developed countries, Due to a strong and aware civil society and nongovernmental organizations intense monitoring on companies, prefer to work with government. Therefore, as legal authority to develop accounting standards is audit organization, it is suggested that the mentioned organization, holding a committee, take a action towards and research on this issue and after developing an appropriate conceptual, attempt to issue executive instructions. Meanwhile, it is recommended to teach novel accounting issues in the primarily university level. It is also suggested to explain , by now, due to lack of a developed standard , social activity disclosure together with its impacts on notes to the financial statements and , creating a precise model, social benefits and expenses generated in entity be estimated and its conclusion in community be quoted.

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