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Social Contract Accounting Framework

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The Social Contract Accounting Framework is an accounting structure that empowers organisations to account for the social impact of their activities. It sets out the principles and guidance for organisations to report on their alignment with the social and environmental objectives of society, in a consistent and meaningful way.

The Social Contract is the unwritten agreement between government and organisations. The organisation is provided with rights and protections in order to carry out its activities. These may include property rights, the power to enforce contracts, the legal structure that facilitates funding and patent rights. The government provides these rights and protections in exchange for the organisation making a positive contribution to society. The contribution may include direct or indirect supply of goods or services sought by members of society, employment opportunities and support for local communities.

Social Contract Accounting provides the bases on which organisations can account for their contribution to society.

Definitions

“Organisation” means any entity that organises people's activities towards a common purpose. It includes charities, social-objective organisations, other not-for-profit organisations, commercial organisations, institutions, governing bodies and government.

“Productive activity” means all organisational activities that enhance personal outcomes, without regard to any associated monetary flows.

“Society” means every society/state whose members are influenced by any of the activities of an organisation

Accounting Rationale

Socially aligned organisations achieve better long-term outcomes. Commercial organisations achieve greater sustainable, long-term profit growth. Charitable and social organisations achieved wider impact. Not-for-profit organisations, including institutions and governing bodies, achieve improved focus.

Financial Accounting was not designed to account for an organisation's non-monetary impact on society. Social Contract Accounting provides the opportunity for organisations to extend its accountability beyond its monetary flows, in a structured and consistent way.

Economic Rationale

Social Contract Accounting provides the means for financial incentive to organisations to align their activities with the social and environmental objectives of society. In doing so, it provides the opportunity for organisations to pursue long-term objectives by mitigating the pressure to achieve short-term financial outcomes.

In this way, Social Contract Accounting encourages a shift in economic, productive and social activity towards human-centred economic objectives.

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Social Contract Accounting Principles

The overarching principle of Social Contract Accounting is that an entity must reflect the impact of its social and environmental activities in a reliable and meaningful way.

Stakeholders

Commercial organisation tend to focus their attention on customer satisfaction in relation to maximising profits, to management rewards and on shareholder returns.

Social alignment requires a focus on a far wider range of stakeholders, including all employees, suppliers, local communities and wider communities. The organisation should evaluate and define its relationship with the full range of appropriate stakeholders. The balance of focus between the various stakeholders will depend on the organisation's circumstances, particularly with regard to the stakeholders.

Social Accounting

In an ideal world, social accounting requires an organisation to account for the direct impact its activities have on the personal outcomes of members of the societies it influences. The ideal is currently unattainable in two respects.

- We do not currently have the means with which to measure personal outcomes objectively.
- An single organisation's activities may influence an individual's personal outcomes, but it rarely determines any individual's overall outcomes on its own.

This means it is not possible for a single organisation to account for its overall social impact, because it is not able to disentangle the impact of its activities from the impact of the activities of others. Conversely, an organisation's cultural objectives and practices heavily influence its capacity to align its activities with society's social and environmental objectives.

This leaves three alternatives

- Social impact : the organisation identifies the areas in which it believes it makes a social impact, sets appropriate objectives, and reports on the outcomes it is able to measure
- Prescribed social impact : this is the same as social impact, with the exception that the areas of social impact reporting are prescribed externally.
- Social contribution : the organisation establishes cultures that align with social objectives, measures the congruence between its objectives and its practices, and reports on the level of alignment achieved during the year.

Environmental Accounting

Sustainability accounting has dominated the non-monetary accounting agenda for the last 20 years or so. It reflects the critical need for change in the behaviour of organisations with respect to protecting the environment.

As with social accounting, there are challenges to sustainability accounting that have proved insurmountable, so far at least. The key challenges are:

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- Definition: sustainability has not been defined. It can mean anything from planetary protection, avoiding resource overuse, development of social structures that are sustainable, and promotion of social flourishing. The different usage causes confusion in understanding the significance and relevance of reported information.
- Priorities: there are two perspectives through which sustainability is seen. Shallow sustainability sees sustainability through a human prism. Limited degrees of environmental degradation may be acceptable where it supports human flourishing, such as appropriation of land to grow human-centred food. Deep sustainability sees sustainability through the prism of the world itself. It sees human outcomes as a sub-set of nature, rather than as its objective, whereby planetary goals are given a higher priority than in shallow sustainability. The priorities of the two versions of sustainability are incompatible, so further confusion arises where calls to action fail to distinguish the purpose of the call.
- Dimensions: there are two dimensions of sustainability. Resource depletion focuses on the rate of use of resources and sees sustainability in terms of the number of years an activity can continue without change. Environment demolition focuses on destruction of the environment, on which we and other life on earth depends. The implications for action on sustainability differ depending on the dimension of focus. Yet the two versions are often lumped together as one by people evaluating the credentials of sustainability, allowing organisations that focus on one areas to broadcast success without regard to the impact they have on the other.
- Practicality: the environment mixes physical resources with intricately connected ecosystems of life, including human life, into a complex system. It is difficult to assess the impact of changes in one part of the system, because of the vast number of compensating changes it provokes elsewhere. We have a general awareness of the probably catastrophic impact of a handful of areas of human activity, such as the nine planetary boundaries described by the Stockholm Resilience Centre. But it is profoundly difficult to distinguish the impact on these areas of individual organisations. It also fails to identify other areas that are close to critical around which scientists do not yet have a sufficient grasp. In respect of resource usage, it is every bit as difficult to predict depletion rates or the impact of depletion, when discoveries of scarce resources may be imminent, where our rate of usage may change as the cost rise in line with increasing scarcity, and where innovation can switch use of one resource for another in potentially very short space of time.

The unpalatable conclusion is that sustainability accounting is absolutely critical to our future wellbeing, and also not sufficiently advanced for individual organisations to provide any meaningful reporting of their impact on global sustainability, for the time being at least.

This leaves us with the following alternatives:

- Environmental demolition : the organisation identifies and reports on any activities that contribute to environmental demolition, where the impact is material to the demolition.
- Resource usage : the organisation identifies and reports on usage of scarce resources. This can only happen where there is scientific consensus around scarcity of an individual resource, and where the scientific community have provided sufficient information for organisations to judge their impact.
- Environmental awareness: the organisation establishes cultures that align with environmental objectives, measures the congruence between its objectives and its practices, and reports on the level of alignment achieved during the year.

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The Framework

The Social Contract Accounting Framework provides the following structure:

- Formalised organisational responsibility towards a wider range of stakeholders
- Practical guidelines on practice and reporting of social activity
- Practical guidelines on practice and reporting of environmental activity

Accounting Principles

Accounting information must be reliable and understandable by its users. The following accounting principles apply to Social Contract Accounting:

- **Purpose:** The purpose of social contract accounts is to reflect the contribution of an organisation's activities to the sustainable human-centric objectives of society.
- **Clarity:** Social Contract Accounting principles must be capable of being understood by reporting entities.
- **Simplicity:** Social Contract Accounts must be capable of being understood by experts, investors, and the general public alike.
- **Consistency:** The basis of Social Contract Accounting must be sufficiently consistent with each other to allow the organisation's social contribution to be compared fairly with the contribution of other organisations. Its basis within an individual organisation must be sufficiently consistent over time to allow its contribution to be compared fairly over multiple accounting periods.
- **Integrity:** Social Contract Accounts must be prepared with integrity, to provide a true and fair reflection of the organisation's social contribution. Its methodology and assessment must be explicit.
- **Completeness**: Social Contract Accounts must reflect the full social and environmental impact of all its activities, where the cost of reporting is commensurate with its value.
- **Certainty** : An organisations should quantify the social and environmental impact of their activities where the impact is sufficiently certain and where it can be measured in a meaningful and useful way. Organisations should provide sufficient descriptive information where its activities have a material impact but where there is insufficient certainty for the impact to be quantified, so that the activities and impact can be fairly understood.
- **Verifiability**: Social Contract Accounts must be capable of independent audit.
- **Universality:** Social Contract Accounting is applicable to all organisations, regardless of size. Different methods of reporting may be applicable to different size organisations, to ensure that the cost of preparing accounting information is commensurate with its value.