Inclusivity Project
enriching humanity

Social Contract Accounting Framework

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Introduction

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

The Social Contract is the unwritten agreement between government and organisations. Society bestows legal rights and protections on an organisation in order to carry out activities that contribute to society's objectives. Examples of bestowed rights include property rights, the power to enforce contracts, the legal structure that facilitates funding and patent rights. Examples of an organisation's contribution to society include contribution to the supply of goods or services sought by members of society, provision of employment and support for local communities.

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 to provide 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-centric economic objectives.

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Definitions

“Culture” means the complete set of an organisation's values, motivators, worldviews and objectives.

“Environmental Accounting” means accounting for an organisation's contribution to resource sustainability.

“Environmental Impact” means the net total impact of an entity on resources and the natural environment.

“Natural” means created by nature.

“Organisation” means any organisation of people carrying out coordinated activities to advance a common objective. It includes businesses, charitable and social organisations, institutions and governing entities.

“Productive activity” means any activity of an organisation that contributes to the advancement of societal objectives, without regard to any associated monetary flows.

“Prosperity” is the aggregate wellbeing of all members of society. It reflects the systemic health of a society.

“Social Accounting” means accounting for an organisation's contribution to human wellbeing.

“Social Contract Accounting” means the principles and requirements for reporting entities to account for their societal impact in accordance with their social contract with society.

“Social Impact” means the overall net impact of an organisation's activities on the state of human wellbeing.

“Societal Accounting” means accounting for societal impact.

“Societal Impact” means an entity's overall social and environmental impact.

“Sustainable” means capable of being maintained at a defined rate or level.

“Sustainability” represents the extent to which societal systems are sustainable. It comprises resource sustainability that addresses future viability of the natural environment to sustain society, and systemic sustainability that addresses the future health of the societal systems that generate wellbeing.

“Wellbeing” means the level of satisfaction of an individual's needs, desires and aspirations. It is a description of the quality of an individual's state of being.

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The overriding objective of society is to deliver inclusive, sustainable prosperity to its members.

Accounting Standard

Organisations should account for their societal impact with respect to the objectives of society, in accordance with the Accounting Principles and Guidance set out in this framework.

Societal impact represents the social and environmental impact of an organisation's activities. The social impact comprises both the impact on the direct wellbeing of individual members of society, as well the impact on the social structures that deliver wellbeing. The environmental impact comprises both the depletion/replenishment of natural resources, and the destruction/restoration of natural ecosystems. Society draws on the natural environment to deliver wellbeing.

Organisations should report on the social impact of their activities during the period of reporting. They should also consider and report on the sustainability of their current level of activities, including any significant societal risks that are discernable.

Wherever possible, organisations should quantify their societal impact in the reporting period. Measurements of wellbeing, structural and environmental impacts present significant challenges to organisations. Measurable impacts should be quantified in accordance with the accounting principles and guidance in this framework.

Accounting Principles

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

- **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.
- **Clarity:** The scope of Social Contract Accounts must be identified in accounts, the basis of preparation must be explicit, and the contribution of the entity's activities on societal objectives must be clear.
- **Completeness**: Social Contract Accounts must fully reflect the social and environmental impact of all its activities, where the impact is material and where the cost of reporting is commensurate with its value.
- **Consistency:** The basis of Social Contract Accounting must accords with standard accounting practice in a way that facilitates like-for-like comparison of results over multiple accounting periods, and with other entities that comply with standard accounting practice.
- **Integrity:** Social Contract Accounts must be prepared with integrity, to provide a true and fair reflection of the organisation's contribution to societal objectives. Its methodology and assessment must be explicit.
- **Simplicity:** Social Contract Accounts must be capable of being understood by experts, investors, and the general public alike.

- **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.
- **Verifiability**: Social Contract Accounts must be capable of independent audit.

Social Contract Accounting Principles

The overarching principle of Social Contract Accounting is that an entity must fairly reflect the social and environmental impact of its activities, in a reliable and meaningful way. Societal accounting standards are needed because monetary accounting alone is insufficient to provide a balanced reflection of an organisation's overall contribution to society.

Stakeholders

Organisations have a wide range of stakeholders. They include all its employees, its customers, suppliers, shareholders, local communities and wider communities.

A reporting organisation should evaluate and define its relationship with the full range of stakeholders. It should decide on an appropriate balance between the interests of its various stakeholders depending on its unique circumstances, as the basis for assessing its overall social impact.

Societal Responsibility

Society is charged with delivering prosperity to all members of society, drawing on human and natural resources in a responsible way that delivers sustainable, inclusive prosperity. Under the Social Contract Accounting Framework, societal responsibility is defined by an organisation's obligation to contribute towards those societal objectives.

Prosperity is defined in terms of aggregate human wellbeing. It is achieved through a deeply integrated, complex ecosystem of multiple organisations of people that generates and delivers wellbeing. Each organisation is capable of delivering wellbeing directly, such as providing food to someone who is hungry, and indirectly by playing its part in the system, such participating in building the roads on which food deliveries are made.

Each organisation is itself an ecosystem that operates in many domains. It may employ staff, providing the means for its employees of buying food. It may carry out agricultural reasearch, building its capacity for generation of future wellbeing. And it may appropriate land for use in ways that may threaten the prosperity of future generations.

A reporting organisation should acknowledge the overall contribution it make to societal objectives, and to account fairly for its contributions to those objectives. It should incorporate a balanced reflection of both its enhancing and damaging contributions. Its accounting should assess the impact of its activities on human wellbeing, and on the natural environment on which human wellbeing depends.

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Types of Societal Impact

There are three primary types of societal impact that are currently assessed. In practice, organisations will assess all three in varying degrees.

- Direct Impact: The organisation reports on its direct social and/or environmental impacts. An example of direct social impact might be a change of procedures to reduce the level of stress endured by employees. An example of a direct environmental impact might be an oil spill in a nature reserve.
- Indirect Impact: The organisation reports on its impacts on the systems that generate wellbeing. An example of an indirect social impact may be the formation of an independent specialist body to design and implement safety standards within the air industry. An example of an indirect environmental impact may be the redesign of an organisation's products to allow components to be reused at the end of the product's life, to prevent the prior practice of recycling or dumping the components.
- Cultural Impact: The organisation reports on its cultural alignment with societal objectives. An example of cultural alignment with the social environment is one in which all an organisation's stakeholders are treated with dignity. An example of cultural alignment with the natural environment is one in which people working with/at the organisation are empowered to reduce the organisation's environmental footprint which the organisation implements appropriately.

Measuring Direct and Indirect Impact

Measurement of direct and indirect impacts are challenging in two respects in particular.

Measuring social impact requires an organisation to establish a method of assessing the impact on wellbeing. Wellbeing is the satisfaction an individual's need or desire. So an assessment of wellbeing must reflect both the individual's need and the extent to which that need is satisfied. Providing food for people who are malnourished has a very different impact to providing food to people who eat three full meals every day. It is rarely practical for an organisation to carry out an true assessment of individual impact. Generally, proxy measures are sought to provide some level of reflection of social impact, but care should be taken to avoid misrepresenting impact through proxies that may have poor correlation with the wellbeing it seeks to assess.

Measuring environmental impact requires assessment of the impact on natural resources and on the natural environment, with respect to the consequent impact on current or future wellbeing. An oil spill, for example, can be measured in terms of the monetary cost of cleaning up the damage. But that measurement represents neither the social nor environmental impact of the spill.

A further challenge is how difficult some impacts are to identify. Some activities are beyond the radar of management, such as the implications of using radioactive materials before radioactivity was understood. Others involve impacts that may not become clear for years, such as the destruction of the ozone layer by products that emitted CFCs once they were no longer being used.

The challenges make it difficult for reporting organisations to measure impacts in a meaningful way, or to report on all of them. So reporting direct and indirect impacts are generally focuses on providing information that is useful to management and readers, without purporting to be either accurate or complete.

An organisation should reflect the following principles and guidance in its reporting:

- There is no requirement for organisations to report on activities whose societal impacts are unknown. However, a reporting organisation has a duty to examine its activities with respect to its societal responsibility and make a genuine effort to identify all societal outcomes of which it is reasonable to expect that they should be aware.
- The report should reflect only activities whose outcomes are material either to an understanding of the organisation's activities in the reporting period or to impacted stakeholders.
- Where information is provided that contains incomplete or poorly correlated proxies, reports should include a narrative of the activity and its anticipated outcomes, and the basis and implications of any quantified information it provides.

Measuring Cultural Impact

An entity's culture describes the way it binds people together into active relationships that generate output. Business culture is woven from its values. An entity's culture establishes its motivation with respect to its societal responsibility.

A number of methods are available that are capable of measuring an organisation's culture. They range from simple listing of organisational values, to the alignment between an organisation's aspired values with its actual values, to the alignment between an organisation's actual values with the values that have been found to advance societal objectives.

In contrast with social impact measures, the cultural measures are capable of quantifying an organisation's alignment with an idealised form of societal culture. They provide an organisation with the quantifiable means to provide insight into their motivation towards societal responsibility and the alignment of their actions with their responsibility. The basis of the measurements is explicit. The methods are capable of consistent application, both between time frames and also between entities, and they are independently verifiable in the same way that financial accounts are capable of independent verification.

Whereas cultural impact provides insight into an organisation's actual intent, it does not necessarily provide insight into actual outcomes. An oil spill may arise either because a company is cavalier in the safety measures it takes, or because a natural disaster causes indefensible destruction of otherwise well constructed defences. The outcomes in any one period may be the same despite the organisation having very different cultural measures. What the measure does provide is an insight into the likelihood of positive or negative outcomes. So the information is valuable, even though it may not predict every outcome in any given time frame. It is open to organisations to apply modelling techniques that adjust the valuation of the cultural impact to reflect actual outcomes in the period of reporting, if they feel it presents a more balanced measure of their overall societal impact.

In Social Contract Accounting reports, measures relating to the cultural impact of an organisation should comply with the accounting principles in this framework. They should be given equal prominence with financial measures of profit. The basis and method of accounting should be clearly stated in the report, and the implications of the results should be explained. Where cultural impact is adjusted to reflect actual outcomes, the adjustments must be identified in the report, explained and applied consistently

In all circumstances, reporting of cultural impact should be supplemented with narrative reporting of actual outcomes in the reporting period where the outcomes are material to an understanding of the organisation's societal responsibility, as described in the previous sub-section.

Conclusion

A reporting organisation should reflect fairly the societal impact of its activities in accordance with this framework. It should consider and apply the method for accounting for its social responsibility that it believes is the most appropriate to its unique circumstances. The basis of accounting should be clearly identified and applied consistently.

It should seek to provide meaningful measurements of its societal impacts wherever possible. Reported measures of social impact should be given weighting or prominence that is commensurate with the state of completeness, certainty and standardisation of practice of the methodology.