

Social Accounting for Social Economy Organizations

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Based on a chapter in What Counts: Social Accounting for Nonprofits and Cooperatives (Prentice Hall, 2003).

1. What is social accounting?

Social accounting was born from a concern about the limitations of conventional financial accounting.

Not only does conventional accounting fail to include environmental and social costs, but through a peculiar logic, it may even treat such costs as income-generating activities, as for example, when certain firms earn money by cleaning up oil spills.

Similarly, when a large corporation lays off employees, there are social costs in income support programs (unemployment insurance, social assistance) and retraining, as well as increased healthcare bills. In financial accounting terms, these social costs are externalities, and except for insurance and severance costs, do not appear in the corporation's financial statements.

The American singer, Tom Lehrer, satirized this frame of mind in his 1970s ballad of Werner von Braun, the U.S. rocket scientist. One verse summarizes the limitations of ignoring broader social impacts: "Once the rockets are up, who cares where they come down? That's not my department," says Werner von Braun."

Social accounting starts from the premise that "where the rockets come down" is partly the responsibility of the people who made the rockets and should be reflected in the accounting of rocket makers.

By the same token, those who carry out work that improves human or environmental health and well-being should be able to include those benefits on the plus side of their ledgers.

However, putting this idea into practice has proved challenging. For the most part, social accounting remains a critique of financial accounting. Alternative financial formats are slow to be developed. Existing approaches face a fundamental challenge—making a market estimate for organizational inputs and social impacts that are not exchanged on the market.

2. A social accounting example

Our book, *What Counts: Social Accounting for Nonprofits and Cooperatives* (Prentice Hall, 2003), focuses on creating social accounting models for nonprofits and cooperatives. For these organizations, assessing their social impact is critical because they are set up for a social purpose. Simply focusing on their financial transactions misses an important part of the story.

To demonstrate this way of thinking, we will take an example, and show an alternative method of tracking costs and benefits.

The Jane/Finch Community and Family Centre is a small non-profit organization in a relatively low-income, as well as ethnically and racially diverse, area of Toronto that provides social services to the surrounding neighbourhood. Most of its revenue comes either from government agencies or the United Way.

The conventional financial statements prepared by Jane/Finch's accountants are adapted from those for a profit-oriented business. The income statement for the year 2000 shows the categories of revenue and expenditure and indicates that Jane/Finch spent slightly more than it received. The breakdown of expenditures illus-

trates that 83 percent is allocated to personnel. The balance sheet, or Statement of Financial Position, indicates that Jane/Finch started the year with net assets of \$249,400 and finished with \$238,181, reflecting a small deficit of \$11,219.

The information in the statements indicates that the organization is living within its means and has a modest amount of assets to fall back upon if there were a decrease in its revenues. However, the statements are one-sided in that they focus on how Jane/Finch spends its money, but are silent on the contribution that Jane/Finch is making to the surrounding community.

A balance sheet indicates the value or equity of a business after the liabilities are subtracted from the assets. This information is important to owners of a business, because they can determine the value on paper of their holding. But it does not tell the complete story of its value, because it omits intangible items such as intellectual capital. A social accounting statement indicates that for every dollar spent on external goods and services, Jane/Finch generated an expanded value added of \$8.43. Although this information may be far from complete, it nevertheless attempts to account for the social impact of Jane/Finch's services. Therefore, to tell the Jane/Finch performance story, an additional form of accounting—a social accounting—is needed.

3. Definitions and models

We have produced the following definition of social accounting, which emphasizes the organization/community interaction and focuses on the stakeholders who contribute to an organization: *Social accounting is a systematic analysis of the effects of an organization on its communities of interest or stakeholders, with stakeholder input as part of the data that is analyzed for the accounting statement.*

We have also developed four integrated social accounting models:

1. the Expanded Value Added Statement, which is an adaptation of the Value Added Statement;
2. the Socioeconomic Impact Statement, which is an adaptation of an income statement;
3. the Socioeconomic Resource Statement, which is an adaptation of a balance sheet;

4. the Community Social Return on Investment approach.

Each of these models uses information from audited financial statements, and includes unpaid labour estimates and estimates of non-monetized social outputs not normally found in conventional accounting statements. Among the items we include are: the value of volunteer services; the value of social labour (unpaid contribu-

tions by members); out-of-pocket expenses absorbed by volunteers; the value of outputs such as employment acquisition and enhancement; savings from income benefits and related services; pro bono consultation services; personal growth and development of volunteers and members; the value of intellectual capital; and the environmental impact of compensating employees for choosing public transport or car pooling to come to work.

In this research bulletin, we will demonstrate how to prepare an Expanded Value Added Statement for Jane/Finch.

Contribution overlooked

Conventional financial statements are one-sided in that they focus on how organizations spend their money, but are silent on the contribution that they make to the surrounding community.

4. Expanded Value Added Statement

“Value added” measures the wealth that an organization, typically a business, creates by “adding value” to raw materials, products, and services using labour and capital. For example, a company that manufactures furniture purchases raw materials such as wood and upholstery fabric. It transforms those materials into furniture through the labour of its workers and the capital of its factory. The value added is the difference between the revenue that flows back into the company from the sale of the finished furniture, and the costs of raw materials.

Unlike *profit*, which is the wealth created for one group—owners or shareholders—*value added* represents the wealth created for a larger group of stakeholders. Thus, the Value Added Statement focuses on the wider implications of an organization's activities beyond profits or losses, or, in the case of nonprofit organizations, beyond surpluses or deficits.

Value Added Statements used in the profit-making sector emphasize that the organization employs people, contributes to society through taxes, rewards investors and creditors for risking their funds, and sets aside funds to maintain its viability. Our expanded version, the Expanded Value Added Statement, also emphasizes the role of the organization in providing benefits to society

that are generally ignored in financial statements because they do not involve monetized transactions.

In a conventional Value Added Statement, the only labour considered is that of paid employees. However, volunteers constitute a major portion of the workforce of a voluntary organization, and it seems absurd to ignore their impact on the organization's value added simply because their service does not involve a monetary transaction. We address this inequity by measuring the contributions given and received by volunteers and by including this value in the Expanded Value Added Statement. But how can we do this?

5. Measuring Volunteer Contributions

In general, the accounting profession values volunteer work only when volunteers replace paid labour. In Canada, the accounting standards guiding the recognition of volunteer contributions are found in the *Handbook* of the Canadian Institute of Chartered Accountants (CICA), April 1997:

4410.16: An organization may choose to recognize contributions of materials and services, but should do so only when a fair value can be reasonably estimated and when the materials and services are used in the normal course of the organization's operations and would otherwise have been purchased.

In our research, we found that only 3 percent of nonprofits include a value for volunteer contributions in their financial statements, normally in supplementary notes to the statement.

This is an important issue for nonprofits, as volunteers represent a significant portion of their workforce—at minimum, the board of directors, and often an important supplement to the workforce on other tasks. Therefore, we endeavoured to estimate a “fair value” for volunteer contributions and to include these within the Expanded Value Added Statement.

At Jane/Finch, for the year 2000, volunteers contributed an estimated 31,838 hours. Since Jane/Finch was in the process of adjusting its reporting period, and the financial period for our study was only nine months, we adjusted these hours accordingly. Thus the total hours became $31,838 \times 9/12 = 23,879$.

To place a value on these hours, we obtained comparative market rates from Statistics Canada, which provides hourly wage rates organized according to the North American Industry Classification System (NAICS). The activities of the majority of the volunteers of the Jane/Finch Community and Family Centre can be classified as NAICS subsector 624, social assis-

tance. The NAICS classification combines all the tasks for a subsector such as social services (including executive and administrative) and puts forward an average wage rate for all levels of occupation in that category. For the nine months ending December 31, 2000, the hourly wage rate in this category for Ontario, the province where the organization is located, was \$13.38.

However, the NAICS rates do not take into consideration governance tasks such as those performed by the board of directors. Therefore, a second source of wage rates was chosen as an equivalent for the hours contributed by the Jane/Finch board of directors. These hours were valued at an hourly rate of \$22.50, based on responses by board members to our Volunteer Value Added survey. While such estimates should not be accepted uncritically, given the nature of the services provided, we considered this rate reasonable.

For Jane/Finch, the total comparative market value for the hours contributed by core volunteers through specific programs is presented in Table 1. The total of \$324,076 is obtained by taking the total hours contributed by volunteers within a program and multiplying them by the appropriate hourly rate (fringe benefits were not included).

Table 1: Calculation of Market Value of Volunteer Hours Contributed, Jane/Finch Community and Family Centre

	Hours	Rate	Amount
Board	502.5	\$22.50	\$11,306
Community Office	450.0	\$13.38	\$6,021
Sub-total administrative	952.5		\$17,327
Mental Health	2,340.0	\$13.38	\$31,309
Mental Health Practicum	1,350.0	\$13.38	\$18,063
Cambodian Youth Group	5,400.0	\$13.38	\$72,252
Community Development	5,793.0	\$13.38	\$77,510
Child/Parent Program	2,250.0	\$13.38	\$30,105
Sub-total programs	17,133.0		\$229,239
Community Development	5,793.0	\$13.38	\$77,510
Sub-total volunteers	5,793.0		\$77,510
Total overall	23,878.5		\$324,076

In some of our other case studies, there was greater variability in the rates that were used. However, for Jane/Finch, one rate (excepting board members) seemed appropriate.

6. The Expanded Value Added Statement for Jane/Finch

The Value Added Statement has two parts:

1. the calculation of value added by an organization;
2. its distribution to the stakeholders.

For an Expanded Value Added Statement, the value added is broadened from financial transactions to take into account non-monetized social contributions. Table 2 represents the value added created by Jane/Finch.

Table 2: Expanded Value Added Statement (Partial), Jane/Finch Community and Family Centre, for the nine months ended December 31, 2000

Value added	Financial	Social	Combined
Outputs			
Primary	\$866,641	\$324,077	\$1,190,718
Secondary	1,746	10,403	\$12,149
Total	\$868,387	\$334,480	\$1,202,867
Purchases of external goods and services			
	\$127,549		\$127,549
Value Added	\$740,838	\$334,480	\$1,075,318
Ratio of value added to purchases	5.81	2.62	8.43

For an organization that exchanges its services on the market, its outputs would be its revenues. However, Jane/Finch, like many nonprofits, does not exchange its services on the market; therefore, its primary outputs are estimated from the market value of its direct labour contribution. For the paid employees, this information is taken from the financial statements, and for the nine-month period under study, totalled \$866,641.

However, an important part of Jane/Finch's contribution to the community was its volunteers, and the estimated market value of their contribution was \$324,077 (social column), which was added to the amount of expenditures for a total of \$1,190,718 (combined column). The volunteer contribution represented an increase of over 37 percent on the financial value added.

Secondary outputs are those not directly related to an organization's mission, but nonetheless of importance. Our survey of volunteering in Jane/Finch included a section on benefits received by volunteers from their volunteering experiences. It included the development of new skills, the strengthening of existing skills, social interaction, improvement in well-being, and opportunities to try new things. At least one of these benefits was chosen by 92.3 percent of the respondents, and 76.9 percent chose at least three out of five of these benefits. The high rates of response indicated that volunteers perceived themselves as receiving strong positive benefits through helping others and that this aspect of volunteering should be included in the Expanded Value Added Statement.

To calculate the market value of volunteer personal growth and development, we multiplied the total number of volunteers (139) by the 76.9 percent of respondents who indicated strongly that they had benefited in some way. After determining how many volunteers had benefited from their experience, we needed to assign a surrogate value. The surrogate value selected was the average cost of a community college course for personal growth and development (\$151.50). This resulted in a total value of $139 \times 76.9\% \times \$151.50 = \$16,198$. This calculation assumes that the personal growth and development experienced by the respondents to the survey reflects the experience of volunteers as a whole at Jane/Finch. This figure was then adjusted to reflect the nine-month term for the statement— $\$16,198 \times 9/12 = \$12,149$.

While both the Jane/Finch community and the broader society derive a benefit from the skill development of volunteers, the organization also incurs a cost for training volunteers of \$1,746, which is part of its secondary outputs. Therefore, as shown in Table 2, the secondary outputs of the organization show as \$1,746 in the financial column, \$10,403 in the social column, and \$12,149 in the combined column.

Recall that the value added compares the organization's total outputs in relation to the goods and services purchased externally, which for Jane/Finch is a modest \$127,549. Therefore, this amount was subtracted from the total outputs, resulting in a total value added of \$1,075,318. If the value added had been based on the audited financial statements only, it would have been only \$740,838.

Finally, the table shows the value added that the organization creates as a ratio of the goods and services purchased externally. This ratio indicates that for every dollar spent on external goods and services, the organi-

zation generated value added of \$8.43. If this calculation had been based on the financial statements only, the ratio would be 5.81. However, by including the volunteer contributions, the ratio increases by 45 percent.

7. Distribution of Value Added

The second part of a Value Added Statement is the distribution of value added to stakeholders (rather than shareholders, as in an income statement). The value added created by the organization is distributed in its entirety to its primary stakeholders. For Jane/Finch these are: employees, volunteers, society (recipients of its services), and the organization itself. Table 3 presents the Distribution of Value Added for these four stakeholders and lists the items associated with each stakeholder.

Table 3: EVAS (Partial)—Distribution of Value Added, Jane/Finch Community and Family Centre, for the nine months ended December 31, 2000

Distribution of value added	Financial	Social	Combined
<i>Employees</i>			
Wages & Benefits	\$724,583		\$724,583
<i>Volunteers</i>			
Personal growth and development	\$1,746	\$10,403	\$12,149
Recognition & Awards	\$4,054		\$4,054
Tenant volunteers		\$77,510	\$77,510
Total volunteers	\$5,800	\$87,913	\$93,713
<i>Society</i>			
Recipients (from volunteer hours)		\$229,240	\$229,240
<i>Organization</i>			
Amortization of capital assets	\$10,455		\$10,455
Programs (from volunteer hours)		\$17,327	\$17,327
Total organization	\$10,455	\$17,327	\$27,782
Value Added	\$740,838	\$334,480	\$1,075,318

For employees, value added is received in the form of wages and benefits totalling \$724,583. For the volunteers as a stakeholder group, the value added distributed is based on what they receive from the experience. In the case of Jane/Finch, the amounts distributed to volunteers were \$4,054 in the form of recognition and

awards, and \$12,149, representing the value of their personal growth and development.

The value added associated with volunteer hours generally is not distributed back to the volunteers, but rather to other stakeholders—primarily, society. However, there was one exception—the \$155,020 of comparative market value generated by tenant groups volunteering for Jane/Finch. The members of those groups felt that their hours were contributing both to the broader community and to themselves personally. In the view of the tenant group participants, the hours that were for personal benefit assisted with challenges that the participants faced in their lives and that they might otherwise have had to pay for in the market to resolve.

To indicate that the hours from tenant group participants differed from the other volunteers at Jane/Finch, these were split 50/50 between the volunteer and stakeholder society. Therefore, for the contribution by tenant group volunteers, \$77,510 was distributed to the stakeholder volunteers and an equal amount to the stakeholder society. In Table 3, that \$77,510 brings the total distribution to the stakeholder volunteer to \$93,714 and the total to the stakeholder society to \$229,240. Although the stakeholder society receives much more value from the organization as a whole, this portion is the amount contributed by volunteers directly. All of the components in the \$229,240 allocation also appear in Table 2.

The category “organization” is the other case where some volunteer hours were distributed to a stakeholder other than society. For the organization, the allocation includes volunteer contributions that were specifically administrative. Two volunteer roles are included for the distribution of volunteer hours to the stakeholder organization—\$11,306 (the comparative market value for the services of the board of directors) and \$6,021 (the comparative market value of services of volunteers who undertake administrative tasks in the community office). Together these come to \$17,327, the value of the volunteer contribution to the stakeholder organization. In addition, as shown in Table 3, the stakeholder organization also received value added from the amortization of its capital assets in the amount of \$10,455, bringing to \$27,782 the total distributed to it.

The Expanded Value Added Statement (Tables 2 and 3) indicates that by including the contribution from Jane/Finch volunteers, the reported amount of value added created by the organization increased by over 45 percent as compared to the amount calculated using financial information only. Thus, the EVAS shows that

the financial information without the social misses part of the organization's performance.

The significance of volunteer contributions to Jane/Finch is confirmed by examining the proportion of human resources that volunteers contribute to the overall human resource base of the organization. For Jane/Finch, volunteer activities accounted for 30 percent of its human resources, or 17.5 full-time equivalent (FTE) positions. This means that Jane/Finch had the equivalent activities of a total FTE workforce of 57.5, not just those of its paid staff FTE of 40. Furthermore, when considering the financial and in-kind resources of the organization, volunteer hours accounted for 27 percent of the total. Therefore, volunteer contributions provide the organization with a significant resource that should be counted in its overall performance.

8. *The uses of social accounting*

The Expanded Value Added Statement shows how conventional accounting statements can be adapted to create social accounting statements. Why has the field of social accounting not pursued this objective?

In part, the problem is political—major accounting organizations have resisted the adaptations to accounting statements that would be needed for social accounting. It is our view that social economy organizations—nonprofits and voluntary organizations—provide a more fertile ground for such procedures because these are organizations with a social mission. The essence of social accounting is to broaden the domain of information that is considered and to broaden the range of stakeholders.

For many organizations, opting for a social accounting statement may seem forbidding. However, social accounting is not simply a procedure for producing accounting statements; it is also a mechanism for understanding the dynamics of an organization. Assembling such statements can create insights for stakeholders, a better understanding of what has been accomplished and where improvements can be achieved. By synthesizing financial data with social inputs and outputs, social accounting can enhance the importance of the social items and give them meaning within the context of the organization's finances.

The Jane/Finch Centre and the many organizations like it know that they are serving their local communities well and can supply testimonials from the clients whom they serve. When these testimonials are systematically organized, they can be impressive. However, it is also impressive for funders to know that for every dollar spent by Jane/Finch on external goods and services, \$8.43 of value added is created, or that volunteers contribute almost 30 percent of its total resources. The amount of value added and the contribution of volunteers to the total resources may vary by organization, but these figures are graphic illustrations of social impact. Our point is that a statistical summary of social impact can be helpful in presenting results, and this is one of the methods that social economy organizations should apply.

For more information on social accounting and the social economy, see our previous research bulletin on the topic: What is the social economy? J. Quarter, L. Mook, and B.J. Richmond, #13, March 2003.

Laurie Mook has degrees in accounting and international development, and a master's degree in educational policy studies. She is currently a SSHRC doctoral fellow at the Ontario Institute for Studies in Education. She developed the Expanded Value Added Statement for social accounting in a recent research project. This model is a central part of the book *What Counts: Social Accounting for Nonprofits and Cooperatives* and was used in an International Year of the Volunteer research project.

Betty Jane ("B. J.") Richmond is an assistant professor in the Faculty of Education of York University teaching in the areas of inclusive, community, and adult education. For her doctorate, she developed a social audit model – the community social return on investment model – to assess the impacts of a nonprofit training organization, work which received ARNOVA's Outstanding Dissertation award for 1999. That framework and the model provided the impetus for the book *What Counts*.

Jack Quarter is a professor at the Ontario Institute for Studies in Education of the University of Toronto, specializing in the study of nonprofits and cooperatives. In addition to *What Counts: Social Accounting for Nonprofits and Cooperatives*, he has co-authored with Laurie Mook and Betty Jane Richmond a series of papers on social accounting in the journals *Nonprofit Management and Leadership*, *Nonprofit Management*, *Voluntas*, *the Philanthropist*, *Journal of Cooperative Studies*, and *Voluntary Action*.

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