Social Responsability Accounting in the South African 'Chemicals' Corporate Sector

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1. Introduction

According to Estes (1976), social responsibility accounting (abbreviated to "SRA"):

"...provides information to a variety of audiences concerning the impact of the corporation and its activities on society"

Compared to other countries such as Canada and the United Kingdom, for example, it is a topic which has been somewhat marginalised.

Although this initial research study covers only social responsibility accounting in the South African 'chemicals' corporate sector, it is intended - in an extension thereof - to undertake a comparative analysis of the general nature and extent of SRA reporting by the 'chemicals' companies listed on the South African, Australian and British stock exchanges.

2. Objectives

The objectives of this paper are essentially two-fold:

(i) to determine the general nature and extent of SRA reporting by companies listed under the 'chemicals' sector of the Johannesburg Stock Exchange (JSE) and

(ii) to test the proposition that the historically significant socio-political changes unleashed by a keynote speech made by South African President, Mr. F. W. de Klerk, in February 1990, have, in some measure at least, contributed to a greater degree of SRA reporting in the sector referred to.

3. Background Information to Accounting and the Accounting Profession in South Africa

The first South African accounting body, known as "The institute of Accounting and Auditors in the South African Republic", was formed in 1903.

Today, there are a number of professional accounting organisations in South Africa, but the most important and prestigious one is the South African Institute of Chartered Accountants (SAICA).

The Republic of South Africa became independent of Britain only in 1961 and hence British accounting developments always have exerted and still do, to this day, exert an influence on South Africa.

South Africa's accounting system is Anglo-Saxon in nature and, as such, there is generally much less uniformity than in those countries such as France, Spain and Portugal, where an "accounting plan" is compulsory.

In South Africa accounting "control" is effected through the application of professionally (i.e. SAICA) issued accounting standards and by the South African Companies Act (although South Africa's legal system is essentially "common law" based it does embody elements of the Romano-Germanic law).

As in the United Kingdom and United States of America, in South Africa, shareholders are a dominant source of financing for businesses.

Since South Africa's inflation levels are relatively low, the historical cost system of accounting is employed.

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4. Response of the South African Academic Community and Accounting Profession to Social Responsibility Accounting

With the exception of a few notable cases, research conducted in this field by South African academics has been limited.

In the past, a number of concerns relating to SRA have been expressed. Paton (1971), for example, has indicated that SRA systems fall beyond the accepted scope of accountants. Whilst Anderson (1978) has argued that, particularly in relation to the measurement complexities inherent in SRA, accountants - owing to a combination of lack of training and experience - are ill-equiped to tackle such complexities. Other concerns include, inter alia, the inevitable recognition of externalities in financial statements (Brooks, 1986), the measurement of social costs and benefits (Anderson, 1978a) and the need to resort to estimates and approximations in the process of measuring social costs and benefits [Anderson (1978a); Brooks (1986)].

It is, perhaps, because of the points enumerated above, that the South African Institute of Chartered Accountants (SAICA) has not issued any accounting pronouncements concerning SRA. It would also appear that South African auditing firms do not currently apply auditing standards to implement this type of accounting. The profession's viewpoint, most probably summarised by the accounting and auditing services' director of a large international audting firm(1), is that:

"The problem with implementation revolves around the absence of relevant accounting standards, i.e. what and how much should be reported. This difficulty stems from the fact that you are dealing with 'soft issues' rather than firm financial information. The auditing thereof should flow relatively easily once the disclosure/accounting has been resolved".

5. Research methodology

The published annual financial statements, for the years ended 1990 and 1991, of the ten companies listed in the 'chemicals' sector of the Johannesburg Stock Exchange which vary in size and relative importance - from the giant ENGEN, whose:

> "principal activities...comprise the exploration, production, marketing and distribution of petroleum products"(2),

to the much smaller MANRO, which:

> "is involved in the manufacture of performance chemicals for the pulp, paper, textile, detergent, toiletry, timber, mining and agricultural industries"(3)

were requested by post. The overall response rate, for both years, was 80%. The two companies that did not furnish their financial statements are relatively small and their exclusion does not materially distort or alter the trends which come to light.

The 'chemicals' corporate sector was chosen for the purposes of this study on the hypothesis that - given the fact that it belongs to a so-called "dirty" industry, of the type which generally attracts public scrutiny - one would expect it to demonstrate a greater degree of awareness and responsiveness to SRA issues.

In this research study, the rationale underlying the selection of the annual financial reports for the years ended 1990 and 1991 is predicated upon the assumption that accounting is a discipline which responds to environmental changes (of which, as mentioned earlier, there have been many in South Africa, since 1990), and that, that being the case, it would not be unreasonable to expect SRA issues, in 1991, to be more comprehensively reported upon than in 1990.

(1) Correspondence dated 30 October 1992.
(2) Engen Limited, *1991 Annual Financial Statements,* p. 42.
(3) Manro Chemical Holdings Limited, *1991 Annual Financial Statements.*

Furthermore, financial statements for the (prior) years ended 1989 and 1988 were not considered, since it was felt that given the fact that no comparably material socio-economic developments occured in South Africa during those years, the level of SRA reporting would not have differed significantly from that registered in 1990.

In attempting to determine the general nature and extent of the 'chemicals' sector companies' SRA reporting, Brook's (1986) definition of "socially responsible activities" was adopted, i.e.:

"actions taken in the interest of society,
directly or at the inducement of the
corporation, by employees or others"

and included, specifically, the following six areas:

Environment

— pollution control in the conduct of business operations
— prevention or repair of damage to the environment resulting from processing of natural resources
— conservation of natural resources, etc.

Energy

— conservation of energy in the conduct of business operations
— increasing the energy efficiency of the company's products, etc.

Fair Business Practices

— elimination of discrimination of any sort in employment practices

Human Resources

— recruiting practices
— training programmes
— job enrichment
— wage and salary levels
— fringe benefit plans
— mutual trust and confidence
— stability of workforce, layoff procedures
— promotion policies
— occupational health
— relationship with trade unions, etc.

Community Involvement

— health-related activities
— education
— arts
— sports, etc.

Products

— utility
— life-durability
— safety and serviceability
— effect on pollution
— customer satisfaction, etc.

The SRA disclosures identified in the financial statements under consideration were reflected in the form of either a single statement, a series of statements, a paragraph or a photograph. No consideration (or weighting) was given, for example, to the physical space occupied by any such disclosures, since that particular aspect, it was felt, was, in the final analysis, of secondary importance.

6. Review of Results

SUMMARY OF RESULTS - TABLE 1

SOCIAL RESPONSIBILITY ACCOUNTING DISCLOSURE

NAME OF COMPANY	TYPE OF DISCLOSURE											
	1		2		3		4		5		6	
	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991	1991	1990
AECI	3	9	0	0	2	2	24	29	8	15	3	4
CHEMICAL SERVICES	5	4	0	0	2	1	25	29	2	2	2	7
ENGEN	4	13	0	1	8	10	38	48	19	19	3	7
MANRO	2	1	0	0	0	0	3	3	0	0	1	1
OMNIA	0	0	0	0	0	0	2	2	0	0	0	0
SASOL	4	5	1	0	2	3	19	30	3	19	4	3
SENTRACHEM	3	5	0	1	2	2	11	11	2	3	7	5
WAYNE	0	0	0	0	1	1	1	7	0	2	1	0

Key

1: Environment
2: Energy
3: Fair Business Practices
4: Human Resources
5: Community Involvement
6: Products

SUMMARY OF RESULTS - TABLE 2

SOCIAL RESPONSIBILITY DISCLOSURES - PERCENTAGES

2.1. Number of Disclosures in 1990

	Total	1	2	3	4	5	6
Actual Number	217	21	1	17	123	34	21
As a % thereof	100%	9,7%	0,2%	8%	57%	16%	9,1%

2.2. Number of Disclosures in 1991

	Total	1	2	3	4	5	6
Actual Number	304	37	2	19	159	60	27
As a % thereof	100%	12%	0,3%	6%	53%	20%	8,7%

2.3. Rate of Change in Level of Disclosure 1990-1991

	Total		1		2		3		4		5		6	
	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991
No.	217	304	21	37	1	2	17	19	123	159	34	60	21	27
Increase / Actual	87		16		1		2		36		26		6	
As a %	40%		76%		100%		12%		29%		76%		29%	

Key

1: Environment
2: Energy
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7. Analysis of Results

7.1. General Nature of Disclosures

Regarding the general nature of the SRA disclosures, the large majority thereof appeared in narrative form in the non-financial (or descriptive) components of the various companies' annual financial statements.

Of the total (521) SRA references made in the annual financial reports during the two years in question, only 41 (8%) were of a monetary nature and included items such as:

"in addition to Engen's internal social investment spending, the Energos Foundation receives over R8 million per annum from the group to fund a wide-ranging programme of community upliftment actvities"[4].

This percentage, which in itself is low, is exacerbated if one considers that included therein were 16 "Value-Added Statement" references to "the

(4) Engen Limited. *1991 Annual Financial Statements*. p. 35.

distribution of wealth to employees", which - being quasi-GAAP in nature - would have been included anyway.

Seven percent of the SRA reporting (36 items) appeared in photographic form, captioned with expressions such as:

> "social investment - wilderness leadership trail"[5]

or:

> "the group comprehends the need to focus on training through facilities such as Genref's Apprentice Training School"[6]

In both years, seven (out of the eight) companies incorporated a "mission statement" (or equivalent) in their annual financial reports.

Almost all the SRA items referred to in the above tables are of a positive - indeed in some cases, even self-congratulatory - nature. Included were affirmations such as:

> "the group's occupational health programmes, which include the regular updating of health standards at all plants, ensure the constantly improved safety and well-being of all employees"[7]

or:

> "harmonious labour relations prevailed throughout the year at all collieries and much progress has been made in securing the advancement of people from less privileged groups"[8].

A few companies however, did report on certain negative aspects of their operations, commenting, in one case, for example, that:

> "an explosion occurred on 28 January 1992 at Chemserve Colloid's manufacturing complex near Port Elizabeth, causing one serious injury and substantial damage to plant and buildings"[9].

A cursory international comparison reveals that the general nature of SRA reporting in South Africa - as evidenced by this analysis - is similar to that of a country such as France, where a "bilan social" (social balance sheet) has to be prepared by all companies having more than 300 employees, and made available to every employee and shareholder. This is really something of a misnomer, since it is essentially only a social report which comments on the following main areas:

— employment: analysis by category, etc.

— employee remuneration and associated costs: total payroll, breakdown by type of employment, etc.

— conditions of health and safety; description of measures taken, etc.

— other working conditions: length of working week, etc.

— staff training: costs incurred for internal and external training, etc.

— industrial relations: strikes, negotiations, etc.

— living conditions of employees and their families.

There are, of course, examples of overseas corporations which - relative to their South African counterparts - demonstrate a more vigorous commitment to the quantification, divulgence and analysis of SRA costs and issues. In the United States, for example:

> "the latest accounts of the chemical manufacturers Monsanto noted that it has doubled its balance sheet liability for cleaning up its toxic wastes in the last financial year from US $120 million to US $245 million"[10].

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(5) Ibid, p. 33.
(6) Engen Limited. *1990 Annual Finanncial Statements.* p. 27.
(7) Sentrachem Limited. *1991 Annual Financial Statements.* p. 6.
(8) Sasol Limited. *1991 Annual Financial Statements.* p. 11.
(9) Chemical Services Limited. *1991 Annual Financial Statements.* p. 6.
(10) Financial Times, 24 January 1993. p. 10.

Another example is the Danish textile manufacturer Novotex, which fully espousing:

> "'full life-cycle accounting' (in terms of which a company is required to reflect the impact of a product from cradle to grave), has analysed the environmental impact of every stage of the production of cotton T-shirts, covering every detail of cultivation, such as the use of pesticides, fertiliser, irrigation, defoliant, transportation and the working conditions of labourers. The same comprehensive thinking was applied to spinning the raw cotton, knitting the thread into fabric, dyeing, shirt manufacturing, possible recycling, and finally its destruction"(11).

7.2. Extent of Disclosures

Table 2 (section 2.3) shows that, in 1990, a total of 217 SRA disclosures were made in the annual financial statements of the companies under consideration. In 1991, this number increased by 40% (table 2, section 2.3) to 303.

Furthermore, in absolute terms, an increase in the level of SRA reporting was noted in every single SRA category in 1991, the "community involvement" category registering a particularly large increase (26 items - +76%).

With respect to the safeguarding of the natural environment, ENGEN's 1991 financial reports, which made 13 references thereto, included policy statements such as:

> "it is strict policy regularly to assess and monitor the environmental impact of the group's business activities"(12).

Both AECI (15 items) and SASOL (19 items) manifested a willingness to amplify "community involvement" disclosures, the former reporting in 1991 for example, that:

> "in addition to the Quality of Life Budget, $1 million was donated to universities and technikons...in the areas of science and engineering"(13).

Table 2 (sections 2.1 and 2.2) reveals that both in 1990 (57%) and 1991 (53%), the overwhelming majority of SRA disclosures related to "human resources", which increased in number by 29% in the latter year.

The "human resources" issues most reported on (in both years under scrutiny) deal with: (i) industrial relations, exemplified by observations such as:

> "while several divisions experienced strike actions, industrial relations in the year under review were generally...positive"(14);

> "various types of training programmes, e.g. "skills-training programmes are provided at artisan and operator level and are coupled with the training in basic business concepts"(15);

and housing schemes, with one company mentioning that:

> "support for home ownership has been maintained and currently over 20 per cent of AECI employees are assisted by the group"(16).

8. Conclusion

In quantitative terms (i.e., the actual number of references), the South African 'chemicals' corporate sector's standard of SRA reporting appears to be reasonably good; qualitatively, however, it seems to be lacking.

(11) Ibid.
(12) Engen Limited. *1991 Annual Financial Statements,* p. 34.
(13) AECI Limited. *1991 Annual Financial Statements.* p. 18.
(14) Sentrachen Limited. *1991 Annual Financial Statements.* p. 21.
(15) Engen Limited. *1991 Annual Financial Statements.* p. 32.
(16) AECI Limited. *1991 Annual Financial Statements.* p. 17.

Only 8% of the SRA disclosures made were of a monetary nature, intimating that corporate management preferred, possibly, not to financially quantify their companies' SRA costs and benefits. In some cases, admittedly, they may have experienced difficulty in doing so; nonetheless, that does not alter the fact that the value and impact of highlighting SRA issues are substantially diminished if such costs and benefits are not financially quantified (or at least, an attempt is made to do so).

The SRA reporting identified in this empirical study was almost all exclusively positive (at times, even laudatory) in nature. While it is felt that companies should indeed be encouraged to make public their social responsibility endeavours and commitments, and even commended therefor (a case in point being, ENGEN, recently awarded a "Human Rights and Peace Award" by the "Weekly Mail" for the financial support provided to the peace accord initiatives in South Africa, the development of an anti-racism education program, and support given to an in-house community rights education), they should, equally, be frank enough to report and comment on their deficiencies and failings in this domain. Currently, this does not appear to be happening.

The mere fact that the companies under consideration disclosed SRA issues so extensively (521 references) during 1990 and 1991 is positive. In 1991, moreover, there was a material overall increase of 87 (40%) in the total number of disclosures. It could, perhaps cynically, be argued that such a material increase is simply indicative of a well-orchestrated corporate public relations effort. This may be partly true; however it could also be counter-argued - and cogently so - that such reasoning does not fully explain an increase in the order of 40%. In other words, it is because this increase was so substantial that one could infer that the present socio-political climate has been instrumental in fostering a climate of keener corporate awareness of social issues. This, in turn, has contributed, at least in part, to the greater degree of SRA reporting discerned.

The largest number of disclosures made by all companies, both in 1990 (57% overall) and 1991 (53% overall) related to "human resources", which in the latter year increased by 29%. Considering the fact that, at the time of writing, the system of apartheid has been practically dismantled and that South African society as a whole is now freer to openly voice its support for human rights issues, this trend - not altogether unexpected - reinforces the proposition which this study sets out to confirm.

The relegation of environmental problems and issues to a position of secondary or minor importance (1990 - 9,7% of total SRA disclosures; 1991 - 12%) especially at a time when, universally, the opposite is true, is somewhat surprising. This again perhaps shows that South African society (and by extension, its corporate sector) places a greater premium, at this point of its historical trajectory, on other, more pressing human issues.

It can, therefore, also be inferred that the efforts and funds channelled towards the elimination (or at least minimisation) of the environmental harm caused by the operations of the 'chemicals' corporate sector, are most probably insufficient. This may be because South African companies, in general, recognise that poluution control costs may handicap their investment ability and - as occurs in the European Community, where operating costs have increased as a result of addressing environmental issues - most will probably wait until they are forced into action by legislation. Plausibly however:

> "companies which anticipate environmental legislation have the chance to adapt more gradually and cheaply than those that leave it to the last minute"(17)

and would also be better placed to attract foreign investment.

Economic logic and the societal pressures (which, most probably will be exerted ever more

(17) Financial Times, 10 March, 1993. p. 18.

forcefully against the so-called "dirty" industries), dictate that the 'chemicals' corporate sector should now consider taking the initiative, and of its own volition, seek to adopt and implement a relevant and useful system of SRA reporting.

A greater commitment to the recognition and quantification of SRA costs and benefits (especially those associated with the natural environment) would, it would seem, in the immediate future, assist in achieving this goal.

It would also seem apt, at this juncture, to consider the formation of an environmentally-related special interest group (consisting possibly, of members of the accounting profession and accounting academics), whose prime task it would be to report on and recommend possible systems of SRA for South Africa.

In addition, consideration could be given to the adoption in South Africa of the type of environmental legislation in force in New Zealand, namely, the "Resource Management Act (1991), which attempts, in short:

> "to estabilish the principle of sustainability as a legal responsibility to the nation".

The socio-economic importance and relevancy of SRA and the attendant issues which it raises, should not be under-estimated or ignored, and it is not altogether unlikely that the South African accounting profession - like its counterparts world-wide - will give some consideration to adequately addressing such issues. Indeed, it is not inconceivable, as Gorman (1991) has remarked, that:

> "should the accounting profession fail to address these issues, it will be excluded from its proper role in the public debate seeking to provide solutions to the social and environmental concerns currently facing society".

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