



## **Social Compliance Accounting**

*A Book Review*

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### **Overview and Review**

The book is an 11 chapter research based book. It starts with the outset of social accounting. A comparison on the understanding of social accounting shows that the scope of social accounting is the society and/or environment. A short discussion about social accounts and social accounting are presented after the definitions of social accounting. Social reporting is presented as the parts of social accounting. A social report can involve the disclosure of products, consumer interests, employee interest, environment and community development. Interactions with community for social reporting are part social reporting. The interactions can be in detailed manner as in Deegan (2007). Following the introduction to social reporting is the overview of prior social accounting research. These discussions constitute Chapter 2. Chapter one is about an overview of the gap that the book tries to fill, i.e. social compliance evaluation with MNCs as the research cases.

Chapter 3 is set to explain social compliance accounting, auditing and reporting. Social compliance accounting in Chapter 2 is introduced as a subset of social accounting. In chapter 3, social compliance accounting on p. 19 refers to the measurement, understanding and reporting of an organization ethical and social compliance. It also includes the communication of conformity to social accountability perspective. The discussion of social compliance accounting is then connected to the supply chain management of MNCs through the Social Accountability International (SAI) discussion. SAI works with international organizations that are either monitoring or working with multinational companies and governmental authorities. The social compliance auditing definition is about the voluntary report of social compliance accounting. Organizations can conduct the audit for internal purpose and or external purpose, i.e. to measure the social accounts, social accounts and assurance practices. Extended link to supply chain is introduced as part of social compliance auditing. Social compliance reporting in Chapter 3 (p. 25) is about the disclosure of social compliance performance.

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Chapter 4 is about legitimacy theory as the base of social compliance accounting, auditing and reporting. Legitimacy theory is a theory with social contract as the base of the understanding. Under the theory, organizational motivation to comply with society values is the endorsement and rewards from the society for doing so. This motivation can create legitimacy gap when first, expectations of the society changes and second, when information disclosed leads to questionable actions or performance from society perspective. Legitimacy theory is the main theory in the book. The main assumption (pp. 32-33) is that organizations will respond on pressures exercised by the related societies as organizations are parts of the societies.

Discussions in Chapter 5 cover the connections between legitimacy theory and supply chain. The discussions can be divided into legitimacy theory and supply chain in the context of working conditions (human trafficking and child labor), and in the context of health and safety as well as basic working conditions such as wages and salaries. Each context is accompanied with a real-world case. Environmental issues are excluded as deemed as too broad. The issues are stated as deserving a separate intensive discussion.

In Chapter 6, regulatory settings for social compliance in the context of supply chain are introduced. The discussion involves a comparison on voluntary and mandatory regulatory environment for monitoring social compliance. In the chapter it is stated that there is only one mandatory supply chain regulation observable. It is the Californian Act. This conclusion of the chapter is that voluntary guidelines published by non-governmental organizations remain guidelines. Companies have discretions to adopt them. Governmental enforcements in the form of mainstreaming the disclosure requirements for violations are important. Even in a mandatory environment such as the Californian Act, the actual adoption can be questionable especially when it involves operations in foreign countries.

Discussions about clothing lines of different MNCs are the focus of Chapter 7. A discussion of an electronic company is included to discuss the implementation of the Californian Act. In Chapter 8 the social compliance discussions use a different perspective. The discussions are from the perspective of a group of stakeholder namely, suppliers. The chapter focuses on the practices of social compliance based on the Bangladesh Garment Manufacturers and Exporters Association (BGMEA). It is an association of suppliers. Legitimacy theory analysis is part of the discussion in Chapter 8.

Chapter 9 is about social compliance from the perspective of stakeholders. The study in Chapter 9 is a continuation of the study in Chapter 8 on BGMEA. The difference between chapters is in the method used to gather data. In Chapter 9, the interview method is applied to gather opinions of some members of BGMEA and NGOs and international organizations representatives. The interviews are conducted to gain insights on how disclosures made for legitimacy purpose can deviate from the actual performance as perceived by the stakeholders. In the chapter, stakeholder power is and the priorities of issues from stakeholder perspectives are compared to those of company perspectives. The results of the study indicate that international communities exert pressures on MNCs providing that the international communities are from developed countries. An extended analysis on stakeholder network to exert pressures for social compliance is the focus of Chapter 10. The stakeholder network includes a combination of media and NGOs. This combination leads to a substantive strategy when companies change their substantive behavior. It forms a symbolic one

when societal approval is gained through business as usual through performance or activity manipulations. Chapter 11 of the book lists all key findings of each previous chapter.

In overall, the book provides well supported guidelines on understanding legitimacy theory in supply chain applications. It structurally defines legitimacy theory with social contract as the base. One input for the future improvement is the adoption of the chosen legitimacy theory itself or at minimum, an additional review on how legitimacy theories are different from one another. An example of the comparison is in Santana (2012). In the article, Santana (2012) compares legitimacy theories and formulates stakeholder legitimacy theory. Stakeholder legitimacy is arguably consists of three elements. They are stakeholder legitimacy as an entity, the legitimacy of stakeholder claims and, the legitimacy of stakeholder behavior. It will be interesting to see how these three elements put into the MNCs supply chain context. It may help to explain in a more detailed manner on why and how MNCs socially comply with its social contract setting.

Another substantive input is the discussion about social auditing. The use of the term auditing is arguably precise. In accounting IAASB has referred to auditing service for non-financial statements as assurance. The use of social audit in the book seems to be based on the social contract in which it is socially mandatory for companies to comply. At the same the audit itself is stated as voluntary. The use of Santana (2012) Stakeholder Legitimacy theory in the review can contribute to insights on elements of legitimacy that force companies to comply socially. To be fair, the book is a compilation of research with some introductions to basic understanding to social compliance accounting and its supporting terms. During the time of research, other stakeholder legitimacy theories may not be of focus yet. Therefore, future improvement using alternatives of legitimacy theories can help to give new insights on social compliance.

### References

- Santana, Adele. (2012). Three Elements of Stakeholder Legitimacy. *Journal of Business Ethics*. 105, 257-265.