Contents of this issue

- Business Ethics: Not an Oxymoron
- Social Performance Reporting and Auditing
  Vancouver Conference highlights need for standards
  Social Auditing: Let's be clear What we Mean

This edition focuses first on the Centre's 10th anniversary and then on social responsibility performance measures for corporations and the reporting and auditing thereof. This issue has been around for well over ten years, but until recently has shown no sign of "taking off" in North America. If it were to happen this time, it would be a fitting development to mark a 10th anniversary.

Business Ethics: Not an Oxymoron
By Elizabeth Loweth

Ten years ago a far sighted group of business people came together to form the Canadian Centre for Ethics & Corporate Policy. At that time, sources for journalists or philanthropists would include under the alphabetical listings “economy, education, environment”, etc. but not “ethics”.

Today the word as well as the concept is well-known in business circles and almost every MBA program features at least one course on ethics. In the years that I have been associated with the Centre either as a member of the Board of Directors or later as Executive Director, the ethics field has grown to include corporate ethics officers and independent ethics consultants, as well as an increasing number of books and articles devoted to the subject.

The Canadian Centre for Ethics & Corporate Policy has had a hand in this growth as it has promoted business ethics and become increasingly recognized as an independent, knowledgeable and respected organization. Its broad volunteer base is to a large extent responsible for this achievement.

At the close of this year I will be retiring as Executive Director of the Centre. It has been more than seven years of challenge, learning and mutual growth. When asked what I do and why, I respond jokingly that my job is to help keep the words “business ethics” from being an oxymoron!

On a more serious note, however, the basis of any ethical system is values; including the way individually and corporately we treat one another on a micro and macro scale, the manner in which we support the larger community and the care with which we preserve or restore this fragile planet, our home.

The challenge to the Centre is to help make the ethical component of decision making central to all the dealings of business, government and other organizations. It is important at the same time, that we support corporate leaders and remain open and sensitive to the daily business needs of their organizations.

Part of the task is to seek new ways of doing business. Recently I was asked by a seven-year-old grandson for a soccer ball. Determined not to purchase one by a manufacturer who used child labour, I eventually located one which said in indelible ink, “not made with child labor”. Not bad, but on reflection not necessarily good. What is really needed is to seek imaginative solutions to such complex problems. It is the part of the task of the Centre to encourage companies to do this. It may involve supporting companies as they seek solutions. In this case the issue might be beyond simply hiring or refusing to hire children. For example it could be to develop a new solution by building a safe, healthy factory, hiring children in the morning, providing a nutritious lunch and (continued page 4)
Social Accounting and Auditing; Has the Time Come at Last?

Vancouver Conference Highlights
Need for Standards  By David Selley

Financial health is the lifeblood of business, not-for-profit organizations and governments. Social and ethical health is, if you like, their soul. Financial health has traditionally been monitored by means of annual financial statements and, until the recent wave of deregulation in Canada, by annual audits thereof. But how is social and ethical health monitored and audited?

A recent international conference in Vancouver entitled “Standards for the New Millennium – The 1st North American Conference on Social and Ethical Auditing, Accounting and Reporting” focussed on the state of this art.

The conference had strong representation from organizations and individuals involved in this field in Europe, especially the UK and some from the US. Canadian representation consisted of ethical consultants and interest groups, the credit union and cooperative movements (VanCity Credit Union co-sponsored and hosted the conference and Mountain Equipment Co-op was a supporting sponsor). There was very little representation from large, nationwide Canadian companies, or, with a very few notable exceptions, larger multi-nationals. Without input and involvement from these sectors nothing good will come out of the current level of interest.

My impressions from this conference are that:

- there is a growing demand. It was reported that in the US, 70% of the public feel corporate social responsibility is important in buying a product and 75% would be prepared to pay $1 more for a $16 shirt to know that it was not made by child or sweatshop labour.

- there are no generally accepted standards for measuring social performance. There are some standards for particular aspects of social performance – all of them from outside Canada. For example, there is SA8000, US-sourced workplace health, safety and wages standards for certification of developing world manufacturing plants, and several sets of principles for environmental performance established by NGOs, particularly the International Standards Organization (ISO). In most so-called social audits however, the performance criteria are established on an engagement by engagement basis, making comparisons difficult and at worst resulting in social audits being perceived as what one speaker described as, “arrogant authorities of who's good and who's bad”.

- the question of who will establish generally accepted standards both for comprehensive reporting and for specific aspects of social and ethical performance is as yet far from being answered. Until it is, the mish-mash of standards will be a barrier to public reporting, and to user comprehension when reporting does occur.

- there is an even greater lack of standards for the performance of external audits of social responsibility. Such audits are few and far between (no more than about three dozen in Canada, I was informed) and when they are performed it is even rarer for the results to be made public.

Three comprehensive examples of social responsibility reporting, with at least partial external audit reports, were discussed at length at the conference. They were by:

- the aforementioned VanCity Credit Union – see their “Social Audit, 1997” that can be ordered from their web site, www.vancity.com. This is the only Canadian example to my knowledge and they felt it necessary to hire a UK organization, New Economics, as their external auditors;

- The Co-operative Bank in the UK - see “The Partnership Report” at www.co-operativebank.co.uk; and

- Shell International - see “The Shell Report”, at www.shell.com under “Profits and Principles…”. This is an interactive site.

These three reports are all admirable pioneering efforts. However, as was pointed out by VanCity’s auditor, they are very voluminous and lack comparability. Going forward, he argued, we need credible standards for social performance measures and for auditing processes. The length of the reports themselves and, I might add as an auditor, the limited scope of, and lack of clarity in, the auditors’ opinions make reading and understanding very difficult except for those truly steeped in the issue. I certainly do not intend to discourage further experiments from major companies. Indeed we need far more than one Canadian example. I argue, though, that universal or widespread reporting will require more compact formats and recognized standards. As one speaker said, "Unless there are standards we are fooling ourselves and it will be expensive and inefficient".

(continued page 4)
The intent of this piece is to bring some clarity to the discussion about social auditing; I will leave the defining of social accounting to others.

Auditing and Assurance Services
Auditing is an examination of financial information to check its accuracy. Financial statement audits in Canada are performed by trained and licenced accountants such as chartered accountants. The audits are conducted under standards called “Generally Accepted Auditing Standards” (GAAS) which are promulgated by the Canadian Institute of Chartered Accountants (CICA). GAAS deals with issues such as required competence, the need for independence by the auditor, standards for the performance of audit work, and the basis for reporting the results. The accounting standards define the criteria against which the auditor assesses the financial statements in determining the appropriate opinion to issue, they are called “Generally Accepted Accounting Principles” (GAAP).

A new and broader examination called “Assurance Standards” has recently been promulgated by the CICA. Assurance standards subsume auditing standards and also encompass a broader range of information beyond financial statements. Standards for assurance services require relevant and measurable criteria against which the information reported on can be evaluated.

Some Concerns About Social Auditing
A major issue, as discussed in the previous article written by David Selley, is the lack of standards for reporting social accounting and the lack of standards for auditing such reporting. There are no generally accepted criteria or benchmarks to measure "social performance".

The assurance services I discuss above would be a possible vehicle for “social auditing” but there are caveats.

The first is suggested by Selley when he mentioned three reports that were interesting but that “lacked comparability.” Little is gained if there is a proliferation of social accounting reports that are idiosyncratic in what they report. Financial statements have a common metric in GAAP; they are reasonably comparable and thus useful. Performance by different organizations can be compared.

The second caveat, and perhaps the most important one, is the concern that there are no standards for audits of information reported under social accounting as GAAS exists for financial statement audits. Anyone can be a social auditor; no particular standards of training or performance exist.

Professional accountants are bound by the rules of conduct of their professional associations. An engagement conducted by a professional accountant under the CICA’s standards for assurance services would have to follow those standards, and others. Any other person providing social auditing may not be bound by any rules of conduct nor by any auditing standards and could provide whatever sort of opinion they liked on information that may or may not be reflective of the organization being reported on.

Conclusion
I am sure that there will be competent and well-intentioned people who will produce information about their organization’s accounting for social issues. And there will be competent and principled accountants and others who will perform a social audit that meets acknowledged standards and opine on the information. The resultant report with the opinion attached will be informative and have value.

I also believe that there will be organizations and individuals producing less-valuable, and perhaps less-accurate, information about their organization’s accounting for social issues. And there will be untrained and, perhaps, less scrupulous people performing some sort of an assessment of the information and opining on it, and calling themselves a “social auditor.”

How will users tell the difference between the two different presentations of social accounting information and of the two different “social audits?” They won’t be able to do so.

I agree with Selley that there is a need for social accounting information and that it should be opined on by a technically competent, independent person performing to recognized standards. Until there are standards for both the information and the audit thereof, users should follow the precept caveat emptor.

W. Morley Lemon, Ph.D., FCA, CPA is a PricewaterhouseCoopers Professor of Accounting at the University of Waterloo and a Director of the Canadian Centre for Ethics & Corporate Policy.
keeping them for an afternoon of education and recreation while paying them for a full day. The gain for the children is obvious. The gain for the country is an educated and healthy population. Possible advantages to the company might be a competitive advantage arising from improved customer relations and improved employee moral and productivity. When they tell their story, as other companies have done, sales could increase. Good ethics may have an initial cost, but the result is often good business. In a similar vein, seeking alternatives to downsizing while maintaining a profit presents a challenge. There might, for example, be value in emulating some of the European shorter work hours or offering part time work in lieu of total job losses. The point is to seek new, fresh, values-based policies with input, where appropriate, from employees themselves. One of the highlights of my time with the Centre has been meeting CEOs to enlist their interest and commitment. They have been supportive and often provide not only material assistance but also have released top level staff to serve on our board. This has been invaluable. I recall a lecture by a CEO whose business was skyrocketing. He provided a nursery for babies of workers, a preschool program, an after school group, high school age clubs and university scholarships. Later when we met for lunch and I asked him what the benefit was to him, he first spoke about his own values. Then he pointed out that seeking new workers was an expense line he did not have. He treated people so well that younger generations, who had in a sense grown up there, were ready, willing and able to take on new jobs. His competitors were making major expenditures for a budget item he never needed. This was clearly reflected, he maintained, in his profits, which may also have resulted from a highly productive and motivated workforce. As the Centre moves into the next millennium, I hope that while it will continue to address business ethics, it will also find the ability to deal with other organizational groups such as government and unions as we together as a society grapple with the coming era which will require so much in the way of ethical analysis, new imaginative solutions and action. These are some personal reflections as I think back over my years with the Centre. Thanks need to go to all who have been supportive, as directors, as staff and as individual or corporate contributors to my work and to that of the Centre. I have been invited to return to my original position as a volunteer director, which is where I first connected with this organization. In any event, I shall continue to have a keen interest in the Centre as it continues to help find new and effective ways of increasing the role of ethics in the decision making processes. Elizabeth Loweth is the Executive Director of the Canadian Centre for Ethics & Corporate Policy. She retires at the end of 1998.

(continued from page2)
Before any of this can be achieved, there needs to be much more cohesion on the part of the many bodies involved and someone needs to take the initiative, preferably on an international basis. However, that does not mean we in Canada should sit and wait. How will we proceed from here? How will we get the input of major Canadian companies? Will standard-setting bodies such as the Canadian Institute of Chartered Accountants jump into the breach? How will we liaise effectively with other countries? Annual get-togethers of the committed and the initiated, worthy as they are (and this was an outstanding conference), are not enough.

David Selley, FCA is past-chair and a director of the Canadian Centre for Ethics & Corporate Policy and a consultant in auditing standards, methodologies and techniques.

management ethics is published five times a year by the Canadian Centre for Ethics & Corporate Policy. The Centre is a charitable, registered, independent ethics centre which encourages organizations to take into account the ethical dimension in making their business decisions and developing their policies and practices. We welcome appropriate announcements, letters to the editor, short articles on any aspect of corporate ethics and suggestions from readers. management ethics is edited by David Selley. You can reach us at:

Canadian Centre for Ethics & Corporate Policy
George Brown House
50 Baldwin Street
Toronto, Ontario
M5T 1L4
Phone: 348-8691 Fax: 348-8689
e-mail: ethicctr@interlog.com Web Site: www.ethicscentre.com

Back issues of management ethics are now on-line at the Centre's Web Site. The opinions expressed in management ethics do not necessarily represent the opinions of the Canadian Centre for Ethics & Corporate Policy. This newsletter may be reproduced without permission as long as proper acknowledgement is given.

Printing: courtesy of BDO Dunwoody Layout: Tracy Parker

4