

## **SOCIAL ACCOUNTING AND SOCIAL PERFORMANCE MEASUREMENT IN CORPORATE SOCIAL RESPONSIBILITY**

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### **ABSTRACT**

Social accounting is necessary for the company as a form of corporate social responsibility towards the environment. In social accounting, it is important to identify social/environmental costs to show the true costs of business inputs and processes and ensure profitability. The social/environmental performance must be measured and evaluated to see if the results achieved are in accordance with what was planned. Social/environmental performance measurement should pay attention to quantitative and qualitative elements, as well as in-process and end-of-process measures so that the measurement system can be optimized.

**Keywords:** Social Accounting, Social Performance, Social Measurement, Corporate Social Responsibility

### **INTRODUCTION**

Environmental issues become an interesting thing to talk about, especially since several cases in Indonesia stands out. Attention from various circles regarding environmental problems is getting bigger. In this case, the company as a business organization cannot only aim to maximize profits without paying attention to other aspects such as the environment. Indirectly, the environment affects the company's going concern. A company can be closed by the government because it is considered damaging to the environment. Therefore, profit maximization alone cannot guarantee the survival of a company.

Social accounting, or often also called environmental accounting or social responsibility accounting, is required by companies to report and disclose their social/environmental performance. Disclosure and reporting of social performance is a form of corporate social responsibility (Suyono, Suhardjo, Renaldo, Sudarno, & Sari, 2021). In terms of disclosing social performance, a measurement is needed which is an important part of the environmental management system.

Measurement of performance is needed as an evaluation to compare the results achieved with what has been planned. The management proverb says that "what get measured, get managed", which means that if we want to manage something well we must be able to measure it. In terms of measuring social/environmental (Renaldo, Suhardjo, Putri, Juventia, & Nur, 2021) performance, an indicator is needed as a basis for measuring social/environmental performance. According to Purwanto (2003), environmental performance measurement is interpreted in various ways, including those that see it only quantitatively, or the results of the process, or also include qualitative and in-process.

### **LITERATURE REVIEW**

#### **Definition of Social Accounting**

Social Accounting is often also called Environmental Accounting or Socio-Economic Accounting, by Belkoui (2000), defined as the process of selecting company-level social performance variables, measures and measurement procedures; which systematically develops information (Chandra, Renaldo, & Putra, 2018) that is useful for evaluating a company's social performance and communicates that information to interested social groups, both inside and outside the company.

Meanwhile, according to Haniffa (2002), social accounting identifies, assesses and measures important aspects of the socio-economic activities of companies and the state in maintaining the quality of life of the

community in accordance with the goals that have been set. According to Sahid (2002), there are several understandings of environmental accounting or social accounting, there is a broad understanding and there is also a narrow understanding. In a broad sense in the set of environmental terms for management, environmental accounting is an accounting process that:

1. Identify, seek, and then mitigate the negative environmental effects of implementing conventional reporting practices
2. Separately identify costs and revenues related to the environment in the conventional reporting system
3. Take active steps to develop initiatives to ameliorate environmental effects arising from conventional reporting practices
4. Planning new forms of financial and non-financial reporting systems, information systems and monitoring systems to better support management decisions that are environmentally harmless
5. Develop new forms of performance measurement, reporting, and assessment for internal and external purposes
6. Identify, test, seek and improve areas where conventional financial criteria and environmental criteria conflict;
7. Examine ways in which sustainable (Renaldo, Hafni, Hocky, Suhardjo, & Junaedi, 2022) systems can be assessed and incorporated into habits associated with the organization.

In a narrow sense, as stated in Natural Resource Accounting, one of the documents of the INTOSAI Working Group on Environmental Auditing states that "environmental accounting is a compilation of environmental data within an accounting framework" (Sahid, 2002). From these definitions, it can be seen that social accounting provides an overview of the interaction of a company's activities with its social environment. Social accounting also provides information that can be used to measure and evaluate the social performance of companies.

### **The Purpose and Scope of Social Accounting**

Social accounting basically aims to measure and disclose the profit and loss and social costs caused by company activities to the community. Meanwhile, the scope of social accounting still includes accounting for social impacts at the micro and macro levels. Micro Socioeconomic accounting is intended to measure and report the impact of corporate behavior on the environment. Macro Socioeconomic accounting, includes evaluation, measurement, and disclosure of social performance at a macro level.

### **Social Cost (Environmental Cost)**

Some definitions of social/environmental costs:

1. Environmental costs are one of several types of business costs incurred in providing services or goods to consumers (Balley, 1991).
2. Environmental costs are costs that arise in an effort to achieve goals such as reducing environmental costs, increasing revenues, increasing environmental performance that need to be considered now and in the future (Anshari, 1997).
3. Environmental costs are closely related to the environment. Environmental costs include, among others, land degradation costs, environmental pollution costs, water depreciation costs, costs for recycling, fees for paying fines, interest, and compensation costs due to environmental damage, as well as loss of flora and fauna (Sahid, 2002).

From the definitions above, it can be concluded that environmental costs are costs incurred as a result of company activities that have an impact on the environment. Companies differ in defining environmental costs, this depends on how much information is used and the scale and scope of the test (Astuti, 2002).

Environmental costs and environmental performance are considered by management for the following reasons (Bringer, 1994):

1. Some environmental costs can significantly reduce or eliminate business decisions, for example regarding the use of technology to reduce waste.
2. Environmental costs may not be shown in overhead costs, or even be ignored.
3. Some companies have found environmental costs that can be offset by generalized income through the sale of waste materials.

4. Better environmental cost management can result in better environmental performance with significant benefits to public health.
5. Understanding of environmental performance and costs can better reflect accurate cost and price calculations and can help companies design environmental processes in the future better.
6. Competitive advantage can be generated from good environmental processes.
7. Accounting for environmental costs and performance can support the company's development and company operations on environmental management systems. Like the system used in setting ISO.

The grouping of environmental costs is divided into 3 (three) types, namely (White and Savage, 1995):

1. Conventional Company Costs
2. Less tangible items (including savings and revenue streams)
3. External costs

Conventional company costs and less tangible items are grouped as internal costs for the company, namely the collection of costs that affect the current period's balance sheet, existing regulations, and market conditions. Less tangible items are indirect costs, savings, or revenue streams that include obligations, compliance with future regulations, changes in share value related to the company's performance assessment of environmental activities, increasing position in the "green" (Sudarno et al., 2022) product market and the economic consequences of changing the company's image are related to its environmental performance.

External costs are the costs of social or environmental damage that occur as a result of the company's operations, for example the cost of the impact of deteriorating health due to the company's smoke exhaust emissions that occur because the company does not comply with existing regulations, damage to buildings or crops due to sulfur or sulfur disposal, and irreversible damage (non-renewable) to certain ecosystems or species due to mining activities or forest destruction.

### **Definition of Social/Environmental Performance**

According to Purwanto (2003), environmental performance is a measurable result of the environmental management system, which is related to the control (Renaldo, Sudarno, Hutahuruk, Suyono, & Suhardjo, 2021) of environmental aspects. Quantitative environmental performance is a measurable result of an environmental management system related to the control (Renaldo, Sudarno, & Hutahuruk, 2020) of aspects of the physical environment. Meanwhile, qualitative environmental performance is the result that can be measured from matters related to the size of non-physical assets, such as procedures, innovation processes, motivation, and work spirit experienced by human actors in realizing the organization's environmental policies, goals and targets.

### **Performance Indicator**

Indicators are analyzed data that has been given a measurement perspective to show symptoms of change, associated with certain issues (Purwanto, 2003). The order is raw data, analyzed data, indicators, and indications. Raw data is data that has not been processed. Analyzed data is data that has been processed and analyzed. Indicators are analyzed data that has been given a measurement perspective to show symptoms of change, associated with certain issues. Meanwhile, indication is an analysis of indicators that show symptoms of change or are indicated by changes, in a certain perspective.

### **Types of Environmental Performance Indicators**

According to Purwanto (2003), the types of measures of environmental performance indicators generally consist of 2 groups, namely:

1. Lagging indicator is a measure of end-process performance, measuring the output of process results such as the amount of pollutants released.
2. Leading indicators are measures of in-process performance.

Lagging indicators are the most frequently used type of indicator because they are relatively easy to use and understand. With this indicator, corrective action can only be taken after the incident, even after incurring certain costs such as fines or a decline in the company's image due to complaints from the public. This indicator also does not identify the root cause of the deficiency and how it can be prevented. The effects of corrective action will not appear until the results next year, so performance measures will feel too late.

The second type of indicator, namely leading indicators or in-process indicators, are indicators that measure the implementation of procedures, or measure what factors are expected to lead to improved environmental performance. An example is the number of environmental, health and safety compliance audits held during the year. Unlike the previous indicators, corrective action for this indicator can often be taken before a deficiency event occurs that reduces environmental performance. Unfortunately, leading indicators are often difficult to quantify (some even tend to be qualitative rather than quantitative), and their results do not get the attention of shareholders (including the public).

### **Why is Environmental Performance Evaluation needed?**

The company's quantitative environmental performance indicators do not always match the needs of consumers, in this case the consumers of environmental policy are employees (internal), the community, customers, investors, and the government (external). Therefore, it is necessary to understand customer needs and the ability to shape environmental performance to meet these needs. Customer needs are identified through surveys, direct contacts, marketing contacts, and so on. Meanwhile, the ability to shape environmental performance according to needs is achieved, among others, through the company's environmental performance evaluation model.

### **Determining Quantitative Environmental Performance Indicators**

In general, to determine quantitative environmental performance indicators can use the method of Environmental Performance Evaluation ISO 14031. Which contains, among others, the selection of quantitative performance indicators related to the consumers we aim for from our environmental performance reporting.

The outline of the method for determining environmental performance indicators according to the ISO 14031 EPE framework, the steps are:

1. Look for performance criteria that environmental customers / interested parties want us to address in our environmental performance reporting. Understanding the organizational aspects through the description of the organization's profile, environmental policies, vision and mission, targets, and performance targets desired by management, as well as other selection criteria, through input from management, can be used as a basis for determining environmental performance criteria and measurable indicators.
2. Include consideration of performance criteria, especially those related to significant environmental aspects and impacts in process mapping.
3. Determine the type of performance indicators based on the previously selected performance criteria.
4. Conduct an environmental management program to collect data on these performance indicators.
5. Report as management review material and take corrective action.

In addition to considering the targets to be achieved, the determination of performance indicators is carried out by taking into account the following matters:

1. Non-technical aspects. Considerations other than written ones such as policy statements, environmental vision and mission, environmental targets and targets, because sometimes there are unwritten policies, it is also necessary to hold consultations with management.
2. Technical aspects: management system, support for obtaining performance indicators, in the form of availability of supporting data (such as data on electricity usage, etc.), ease of measurement (equipment and methods), financial feasibility, and economically significant environmental aspects.

### **Determining Qualitative Environmental Performance Indicators**

Quantitative indicators still have weaknesses, including not being able to fully describe the ongoing process. Indicators that are difficult to describe quantitatively include those related to qualitative intangible aspects, such as employee perceptions, motivation, and climate of innovation. These things are more accurately measured by a qualitative approach.

Qualitative indicators are measures that are based on semantic assessments, views, perceptions of a person based on their observations and assessments of something. This indicator remains important because it is part of the process of activities that play a role in measuring the climate and driving employee motivation, to realize the expected performance results.

An example of a qualitative measurement is an assessment of the applicable environmental management system such as the scope of procedures, employee perceptions, customer satisfaction, work motivation, the intensity of communication that occurs with customers / other organizational elements, reward systems,

environmental data validity processes, and so on. To be optimal, these indicators must have a direction in realizing the environmental targets to be achieved, in the form of a clear policy vision and mission, conditions to be achieved such as guaranteeing business continuity, the quality of the production process according to customer wishes, and others.

Qualitative indicators can be measured by gap analysis activities or management system audits. Another way that can be used is to give companies the freedom to make their own performance measures according to their goals.

### **Environmental Performance Evaluation (EPE) Model – ISO 14031**

The ISO-14031 Environmental Performance Evaluation Model (EPE) becomes the reference method used to measure, analyze, and deal with a company's environmental performance quantitatively (Kuhre, 1995) in Purwanto (2003). Environmental Performance Evaluation (EPE) is a continuous measurement of how well an organization is progressing and changing for the better.

ISO 14031 is an international standard that describes the process of measuring environmental performance quantitatively, but not for certification purposes as is ISO 14001. The EPE tool is designed to provide management with reliable and verifiable and ongoing information about whether an organization's environmental performance meets established criteria predetermined or not. ISO 14031 corresponds to the ISO 14001 series and is intended to help companies get the right performance indicators in the process of continuous improvement.

ISO 14031 divides environmental indicators into 2 distinct categories (1999):

- Environmental performance indicators (EPI), further subdivided into:
  - Management Performance Indicators (MPI); providing information based on management issues, such as training, legal requirements, resource allocation, purchasing, product development, etc.
  - Operational Performance Indicators (OPI); provide management with information about related operations, such as inputs, equipment design and operation, and outputs.
- Environmental Condition Indicators (ECI); provide information on local, regional, national and global environmental conditions (such as ozone layer thickness, average global temperature, fish population size in certain water sources, etc.).

### **Implementing and Evaluating Performance Measurement Programs**

There are a number of things to consider when designing, implementing, evaluating, and improving a measurement program. The most important thing is to realize that there is no one approach that fits every organization. Each organization has its own products and services, different organizational structures, financial structures, legal, and regulatory requirements, customer requirements, collection and management systems, and environmental impacts. The chosen approach should be responsive to various potential audiences such as management, employees, government, shareholders and society (Purwanto, 2003).

Behind every successful measurement program lies the concept of adjustment, accountability, and continuous improvement in Purwanto (2003):

- Adjustment involves combining environmental performance measurement with business measurement, data collection, reporting, and management to ensure consistency, and to minimize disapproval and discrepancies. It also means ensuring that these metrics match the needs of companies, business units and other audiences.
- Accountability is a two-way process: not only must employees and business units be held accountable for environmental performance, but management must clearly explain its expectations and must encourage business unit participation in the development of performance criteria. Its implementation is based on transparency of measurement and responsibility.
- The concept of continuous improvement, is key in the PDCA cycle. It must be remembered that measurement occurs not only for the sake of measurement itself, but to direct performance towards reduced environmental impacts, more efficient use of resources, increased profitability and a more sustainable future (Putri et al., 2022).

What is certain is that in designing and implementing an environmental performance appraisal program, it must get support from all parties in the organization. Good synergy between personnel in an organization is absolutely necessary to be able to run the system properly.

Meanwhile, in evaluating the performance appraisal program, the development of the times and technology must be considered. Performance measurement programs must be able to adapt to changing times and technology. This is important in generating relevant information on environmental performance.

## CONCLUSION AND RECOMMENDATION

Social accounting is needed by the company as a form of corporate social responsibility towards the environment. In social accounting it is important to identify social/environmental costs to show the real costs of business inputs and processes and ensure cost efficiency.

Social/environmental performance needs to be measured and evaluated to see if the results achieved are in accordance with what has been planned. Measurement of social/environmental performance needs to pay attention to quantitative and qualitative elements, as well as in-process and end-process measures so that the measurement system can be optimized.

The recommendation from this research is that the company must adapt the way to improve social performance with the company's circumstances. Then, the company can also present its social activities on the company website (Renaldo, Suhardjo, Putri, Sevendy, & Juventia, 2021).

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