

WHAT COUNTS



**Social Accounting
for Nonprofits and
Cooperatives**

**Jack Quarter
Laurie Mook
Betty Jane Richmond**

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Foreword

What Counts: Social Accounting for Nonprofits and Cooperatives, by Jack Quarter, Laurie Mook, and Betty Jane Richmond, raises an important issue for nonprofits. Those of us who care about the nonprofit sector have long recognized that conventional accounting does not count many important contributions of nonprofit organizations.

Also, as we know, many nonprofits rely heavily on volunteers and because they are not paid, their contributions normally do not find their way onto accounting statements. These uncounted contributions are significant: The most recent figures on volunteering from the Independent Sector indicate that for the year 2000, 44 percent of adults over the age of 21 (83.9 million) volunteered a total of 15.5 billion hours, or the equivalent of over 9 million full-time positions.

For these reasons, *What Counts* is a very timely analysis of a major challenge facing nonprofits today—how to properly assess social impacts and the important contributions of volunteers. In an era of resource constraints and increased demands for accountability, creating accounting procedures that highlight the social impacts of nonprofits is critical. *What Counts* tackles this issue by presenting actual social accounting statements that allow nonprofits to do just that: Four models are presented using seven case studies. Among the issues that are addressed within these accounting statements are the value of volunteer contributions, the impact of the organization on the personal growth and development of its volunteers, the impact of the organization on the recipients of its services, the impact on the community, and the impact on the environment. In other words, these statements address issues that are of importance to nonprofits.

The field of accounting has traditionally evolved in response to the needs of the business community. While this is an important constituency, nonprofits are different in that they do not have shareholders and they serve many stakeholders. Therefore, new accounting models are needed that speak to the uniqueness of nonprofits. While going a long way in demonstrating how volunteer contributions and unpaid services to the community can be included in accounting statements, *What Counts* acknowledges that this work represents only a beginning. Nevertheless, it is an important beginning!

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Preface

Accounting statements for nonprofits and cooperatives miss an important feature of their activities—these are organizations with a social mission and, as such, their social impact is a vital part of their performance story. In addition, nonprofits rely in varying degrees on volunteers, yet ironically the value of this service normally is excluded from accounting statements. In other words, for organizations with a social mission conventional accounting misses critical aspects of their operations. This book begins the process of rectifying this oversight by including within accounting statements the contribution of volunteers and other forms of unpaid labor (unpaid member contributions in a cooperative and nonprofit mutual association) and social outputs that normally are not exchanged in the market. This is a challenging task because it involves making appropriate market comparisons for items normally not involving any market exchange. We locate this work in the emerging field of social accounting, which attempts to broaden the domain of accounting by analyzing the impact of the organization on society and the natural environment. In this book we define social accounting as 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 are analyzed for the accounting statement**. This definition is developed in detail in Chapter 3.

The predominant tradition in social accounting is the creation of qualitative reports that systematically organize feedback from stakeholders on how well the organization is meeting its mission. In general, social accounting has bypassed financial statements and limited itself to supplementary reports, also referred to as social or ethical audits. We depart from this tradition and utilize actual accounting statements but with a difference—we broaden the domain that is considered and attempt to tell a more complete story of the organization's performance.

Three social accounting statements are presented in this book:

- the Socioeconomic Impact Statement, an adaptation of an income statement;
- the Socioeconomic Resource Statement, an adaptation of a balance sheet; and
- the Expanded Value Added Statement, an adaptation of a Value Added Statement.

In addition, a fourth approach—the Community Social Return on Investment model—was created specifically to measure the social impact of nonprofits. While not a formal accounting statement in the same sense the Socioeconomic Impact Statement, the Socioeconomic Resource Statement, and the Expanded Value Added Statement, the Community Social Return on Investment model is a relatively simple framework that social organizations can use to measure their social impact.

With each of these approaches, volunteer contributions and other forms of unpaid labor are included as are some social outputs that are not exchanged on the market. These approaches are applied to seven different organizations—nonprofits and one student-housing cooperative. For each application, there are illustrations and detailed explanations of how the calculations were arrived at. In addition, one chapter presents the data collection devices used in the book—these are useful for preparing social accounting statements and for organizations wanting to systematize their record keeping of volunteers and social impacts and to place a market value on them.

We view the book primarily as a supplementary text for persons in such programs as nonprofit management, cooperative management, and accounting. However, we feel that it is written in such a way as to be of use to managers of nonprofits and cooperatives in such activities as:

- annual reports, to more accurately reflect to supporters, members, donors, and other audiences the value the organization returns to the community;
- volunteer recognition programs, to demonstrate to volunteers their value to the organization and to those served by the organization;
- funding proposals and in reports to funders, to show how the impact of funder dollars was stretched by voluntary efforts; and
- to demonstrate to policymakers the value of investing in community-based organizations.

This book is an outgrowth of each of our diverse but related experiences. Betty Jane Richmond (B.J.) has served in management and on the board of directors with various nonprofits. Through this experience, she began to realize that the ways of evaluating how well a nonprofit organization is doing are limited and unbalanced. The costs of nonprofits are all too evident, but the value they contribute to the community is not easily assessed. She concluded that the evaluative mechanisms for nonprofits, including the accounting systems, are missing something critical—the impact of their services on their clients and the community.

For her doctoral thesis (under the supervision of Jack Quarter) at the Ontario Institute for Studies in Education (University of Toronto), Richmond developed the Community Social Return on Investment model and applied it to a community-based training agency for people on social assistance because of various forms of disability. That framework looked at part of the social return that these organizations create. She later applied this framework to the study of five additional community-based training organizations, a project that was coordinated by the Ontario Network of Employment Skills Training Projects (ONESTEP) and funded by Human Resources Development Canada. Within this work, Richmond utilized the social economy framework that had been developed in Western Europe and had been applied to a Canadian context by Quarter, and written up in his book, *Canada's Social Economy*, and subsequent research. Unlike most frameworks for nonprofits, the social economy casts a broader net and includes all types of organizations formed primarily for a social purpose,

including nonprofits oriented to the public and often with a charitable status, nonprofit mutual associations serving a membership, and cooperatives. All of these are referred to as social organizations. Richmond won the outstanding dissertation award for 1999 from ARNOVA (Association for Research on Nonprofit Organizations and Voluntary Associations). ARNOVA, based at the University of Indiana, is the major international association for researchers of nonprofits.

Through a fortuitous contact, Richmond met Laurie Mook, and together they began extending this work. With funding from the Canadian Cooperative Association (CCA), Ontario Region, they conducted research into how a student-run housing cooperative participated in the social and economic life of its community. In this research, they adapted a Value Added Statement to illustrate both the social labor contributed by members to the cooperative and the effects of the organization on an array of stakeholders. This adaptation, named an Expanded Value Added Statement (EVAS), was designed primarily by Mook, a researcher who completed a Certified General Accountant's degree and who has a related set of social interests that led to degrees in International Development and in Educational Policy Studies. She is currently starting her Ph.D. at the University of Toronto with the support of a *prestigious doctoral fellowship from the Social Sciences and Humanities Research Foundation of Canada (SSHRC)*. She too is working with Jack Quarter and plans to extend further the work on social accounting for nonprofits.

After the completion of the project with the student housing cooperative in 2000, the three of us were fortunate to receive an International Year of the Volunteer grant from Human Resources Development Canada and the Canadian Centre for Philanthropy, the apex organization for nonprofits in Canada. The International Year of the Volunteer project with the Canadian Red Cross, Toronto Region, Canadian Breast Cancer Foundation, Ontario Chapter, Canadian Crossroads International, and the Jane/Finch Community and Family Centre, as well as a related project with the Junior Achievement program in Rochester, New York, allowed us to apply the Expanded Value Added Statement in different contexts. The project also permitted us to address more specifically the issues of attributing a comparative market value to nonmonetary items, including volunteer contributions, within such a statement. As part of the work with Junior Achievement of Rochester, an income statement has been adapted to a Socioeconomic Impact Statement and a balance sheet to a Socioeconomic Resource Statement. These adaptations better suit the social purpose of this organization and take into consideration its important stock of intellectual capital.

In writing the book, it was also important for us to make accessible knowledge about suitable approaches to accounting for nonprofits and cooperatives to current and future managers and directors of these organizations. Through the International Year of the Volunteer project, we developed hands-on experience in how to help nonprofits track their volunteer tasks, hours, and nonreimbursed out-of-pocket expenses, and how to research the skills that they develop from volunteering. This experience can be found in our how-to chapter, which includes actual items that can be used to track such information.

This book represents our work to date, but we view the models that are presented here as a beginning rather than a final point. As will become apparent from our discussion in the chapters that follow, developing appropriate accounting systems for social organizations requires creating practical and replicable procedures for measuring the effects on key stakeholders, including society. Doing this requires time-consuming research on the creation of appropriate benchmarks or social indicators that become the standards for interpretation and also requires general agreement among professionals who account for the performance of social organizations. For example, measuring the contributions of volunteers is a complex labor-intensive process that social organizations often are reluctant to become involved with, in part because of a lack of human resources. Part of the solution is practical (establishing the know-how) and part is political (establishing the agreement of the profession about standards that should be applied for estimating the dollar value of particular volunteer tasks).

In addition to the financial support already mentioned, some of the research flowing into this manuscript was supported by a grant from the Kahanoff Foundation, 1998–99, through the Queen's University School of Policy Studies, that permitted some development of the social economy framework. We are also indebted to a number of people with whom we have worked with these models. These are the staff and board of directors of the Waterloo Co-op Residence Incorporated (WCRI); Cathy Lang, former Ontario Regional Director of the Canadian Cooperative Association; Kunle Akingbola, Manager of Employee and Volunteer Resources and Maria Harlick, Director, Service Support & Development Services, at the Canadian Red Cross, Toronto Region; Margarita Mendez, Executive Coordinator, and Clare Blythe, Volunteer Coordinator, at the Jane/Finch Community and Family Centre; Karen Takacs, Executive Director, Ian McNeil, Director of Finance, and Mario Gagnon, National Program Manager, at Canadian Crossroads International; Sharon Wood, Ontario Chapter Executive Director, and Beth Easton, the Ontario Community Programs Director, of the Canadian Breast Cancer Foundation; and Andrew Portanova, President, and Rebecca Sherman, Program Manager, of the Junior Achievement program of Rochester, New York.

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Jack Quarter
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