

# Gayed Najah Yousef (G.N.Y) model for disclosure of social responsibility according to the objective of expenditure

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**Abstract-** Social responsibility is only a commitment of companies towards the society in which they work for, by contributing to a range of social activities such as fighting poverty, improving and providing service, combating pollution, creating employment opportunities, solving the problem of housing, transportation, etc. This commitment maximizes the positive effects of activities of companies to society and reduces the negative effects of those activities as much as possible.

This study aims at forming the "G.N.Y" model for the disclosure of social responsibility by dividing the costs of social responsibility according to the purpose of spending, by presenting the concept of social responsibility, its activities and the points of views in the ways of disclosure.

The importance of this paper lies on introducing of the "G.N.Y" model, which is easy to apply and adapt. It preserves the main objective of companies, which maximizes profits, and entirely depends on the need of users to the outputs of the accounting system.

**Index Terms-** (G.N.Y, Social Responsibility, Spending), Cost

## I. INTRODUCTION

The social responsibility is a phenomenon that is subject to multiple perspectives that form the framework for the development of this concept. The social responsibility means a moral obligation to companies towards the society in which they work to deal with their damage resulting from the implementation of their activities, as well as contributing to the protection and development of the environment and society and improve the quality of their products (1).

## II. RESEARCH PROBLEM

The problem of the research is the divergence of views on the nature and ways of disclosure of social activities between the integration or separation of social and economic costs in the financial statements and the ways of presenting of these activities in the financial statements or in the form of descriptive reports. The problem of the research (the presented models neglect the main objective of companies and the need of users of financial

statements for information that helps them in making their investment decisions).

## III. RESEARCH METHODOLOGY

This study is based on the inductive method of the social responsibility cost elements as one of the methods applied in most of the studies and researches related to the subject of the study. A group of specialized scientific researches and journals, studies published in periodicals and on the internet, have been analyzed and discussed to achieve the objectives of the study and reach conclusions and recommendations to contribute enriching knowledge and guide companies in appropriate manners to disclose the social responsibility.

## IV. CONCEPT OF SOCIAL RESPONSIBILITY

There are several definitions of the concept of the social responsibility. The concept of the social responsibility is still developing with the development of society. There is no a final list of the areas and issues covered by it. The common denominator among most definitions is that the concept of the social responsibility that the social and environmental activities of institutions aimed at improving their image in the society.

Drucker, 1977 defined the social responsibility "it is the obligation of enterprise towards the society in which it operates", 2 and Holmos's view, 1985 " it is an obligation to the business towards the society in which it operates by contributing to a wide range of social activities, such as fighting poverty, improving health services, combating pollution, creating jobs and solving the problems of housing and transportation, etc. "(3).

Al-Shirazi, 1990 defined the social responsibility as "a set of activities that measure and analyze the social performance of a particular economic unit and transfer that information to the relevant groups in order to help them make the right decisions and assess the social performance of the unit".

Pride, 2005 identified the social responsibility as "acknowledging that business activities have an impact on society and that impact on business decision-making" where Williams, 2002 presented it as "the commitment of the business sector to pursue policies and actions that benefit society".

The World Business Council for Sustainable Development defined the social responsibility as "the continued commitment of business companies to act ethically, contribute to economic development and improve the quality of living conditions of the workforce, their families, the community and the society as a whole".

While the American Accounting Association defined the social responsibility as "the measurement and reporting of processes related to the impact of project activities on the society".

Others defined the social responsibility as "the moral responsibility of the organization towards the stakeholder group that is directly or indirectly affected by the organization works, and this definition shows that morals plays a major role in the social responsibility".(3)

Therefore, it might be defined as a process of interpreting, defining and measuring positive and negative social events of economic unit and transferring it in a form of information to internal and external parties benefiting from the operations of the economic unit of its social activities, whether these activities voluntary or mandatory and to measure that impact on the economic unit, local society and the surrounding environment.

#### V. OBJECTIVES OF SOCIAL RESPONSIBILITY ACCOUNTING

The objectives of accounting for social responsibility are as follows: (5)

First, to identify and measure the net social contribution of the organization, which includes not only the elements of the internal and external costs and benefits of the organization, but also the elements of the external costs and social benefit that have an impact on the society.

Second: to evaluate the social performance of the organization by determining whether the organization's strategy and objectives are in line with the social priority on one hand and the organization's ambitions for the individuals to achieve a reasonable percentage of profits of profits on the other hand. The relationship between the performance of the organization and its social welfare represents an essential element of the goal of the social responsibility.

Third: to disclose the activities carried out by the organization that have social impacts (the impact of the organization's decisions on the education and health of workers, the pollution of the environment and the consumption of resources).

#### VI. HISTORICAL DEVELOPMENT OF SOCIAL RESPONSIBILITY

The historical development of the social responsibility goes through five stages: (1)

a. The stage of maximizing profits: The first phase of the nineteenth century to the first quarter of the twentieth century. The period of profit maximization witnessed the emergence of the social responsibility and is linked to the establishment of the industrial enterprises and the belief of businessmen that their sole goal is to maximize profits, regardless of their responsibilities towards the community without taking into account their positive or negative effects on the society.

b. The Industrial Revolution Stage: This phase extends from the end of the first quarter of the 20<sup>th</sup> century until the end of the Second World War. The Social responsibility emerged more during this period as a result of many factors that contributed significantly to the development of the concepts and principles of the social responsibility. The most important factors are as follows:

- Expanding industry and using machinery and equipment more.

- Changing trends, there is a growing evidence that consumers are influencing the company to carry out its responsibilities, as well as sometimes increase political influence.

- The emergence of demand streams to ensure safety and security at work, reduce working hours, and protect the rights of different parties. The idea came here to meet the needs of the society in general, and that the company should not only look at profits, but it should extend to the budget in its responsibilities towards other relevant parties represented in consumers and employees.

c. The stage of the emergence of trade unions: This period extends from the end of World War II until 1960, and witnessed the emergence of trade unions, which led to a confrontation between the administration and the trade unions. This stage is characterized by the growing strength of trade unions. It has become a significant force in terms of impact on the decisions of the company. The development of the means of communications has played a major role in educating communities in some countries such as Britain and France. This has led to an increment of awareness of the social responsibility. It has also been characterized by the large number of cases before the courts for reasons related to important aspects of violations by companies against society, related to consumer's health, such as food poisoning cases and work injuries, in addition to various environmental violations.

d. The stage of increasing the negative effects of companies: This period extends from 1960 until 1970, as there were factors that led to increased attention to the social responsibility and the emergence of its role more like the employment of young people at work, the use of technology, environmental pollution caused by companies and caused by different causes and actions, Were accidental or intentional, as well as threats to workers' health and safety from raw materials used in production.

e. The stage of international conventions and local laws: This stage extends from 1970 until now, as this phase is reflected in the appeals and protests in the previous stages in the formation of laws and ethical constitutions. Countries have started before the companies to formulate and adopt such legislations. The social goals and the willingness to adhere to moral values, which clearly appear in corporate slogans and their messages. The Global Charter of Social Responsibility, launched at the United Nations Headquarters in New York by the Secretary-General of the United Nations on 26 July 2000, presenting a set of key principles and establishing the concepts of cooperation between communities and companies in which they operate, as the Charter contains a set of principles such as companies respect human rights in accordance with international conventions, and non-discrimination between employees, use and promote the use of environmentally friendly technologies in manufacturing, and fighting against all forms of administrative corruption.

## VII. DIMENSIONS OF SOCIAL RESPONSIBILITY

Many researchers have concluded that business organizations carry out a number of social responsibilities, each is trying to define the dimensions of the social responsibility in different points of view, setting different causes and reviewing the literature. We notice that the dimensions of the social responsibility of the organization are interrelated and integrated with each other to form the ultimate philosophy of the social responsibility that the organizations seek to adopt, and to achieve the desired benefits, so the dimensions of the social responsibility are in the following (8):

a. The economic dimension: It is intended to be a useful and economically viable organization, and to strive to provide safety for others, where the relationship between the economic performance and the efficient and effective implementation of works to reach the results that achieve maximum profits.

b. The legal dimension: It is intended to comply with the laws, regulations and instructions that should not be violated by the business organizations and respected by the state, and in the case of the contrary, they are subject to legal problems.

c. The moral dimension: In the sense that the organization is based on ethical principles, and that it is committed to the right actions and refrain harming others.

d. The human dimension: That is, the organization is sound, that it contributes to the development of society, and that it works to improve the quality of the welfare of society.

## VIII. BENEFITS OF THE ORGANIZATION'S ADOPTION OF THE SOCIAL RESPONSIBILITY

The benefits of corporate that the social responsibility achieve for the corporate are divided into two parts: (6)

a. Benefits to the organization are as follows:

- High productivity of employees.
- Greater loyalty of employees.
- Decrease in the number of judicial cases.
- High satisfaction of consumers.
- Improve the reputation of the organization, thus increase its sales.
- Increase in the value of the organization's shares.

b. Benefits to the communities are as follows:

- Enhancing basic rights (health, education, workers' rights, etc.).
- Contribution to development.
- Improving the environment.

## IX. SOCIAL RESPONSIBILITY TRENDS

The first trend: takes into account the social performance of economic unit combined with economic performance in traditional accounting reports. The trend means here (integration) to integrate economic activities with social activities in single reports to express the overall performance of the economic unit.

The second trend: Accounting of the social responsibility is considered a new view of accounting, taking into account the viewpoint of the society, and according to this trend accounting of social responsibility, in the form of a general framework of the branches of other accounting, both financial and administrative is considered.

The third trend: In this trend, accounting of the social responsibility is seen as a subsidiary theory, along with other theories of the accounting science. This trend means independence, making accounting of the social responsibility a branch of accounting such as: financial accounting - management accounting - cost accounting – human resources accounting.

## X. DISCLOSURE OF SOCIAL RESPONSIBILITY

It is the presentation of data and information on the social activities in a way that can assess and evaluate the social performance of the business organizations.

First: Separate social reports: The social responsibility reports in this way take one of three forms: (8)

1. Descriptive reports: Describe in a retell, narrative or story-telling manner of the social activities undertaken by the project and describe those activities in fulfillment of the social project obligations, which are usually voluntary commitment activities of the project, without attempting to evaluate and analyze the costs and benefits of such activities.

2. Reports on cash measurement of cost elements: Reports that disclose the costs side of the impacts of the social project activities without tackling the value of the benefits achieved by those activities. The benefits are not disclosed in these reports because they are difficult to measure. Two types of the lists of this kind of report can be presented here:

a. List of cash flows for the social activities: This list includes all the amounts spent by the project on pollution control, environmental protection, charitable donations and other benefits for employees, where all the amounts spent by the project are seen as benefits to the community. In the end of the list, the total costs of the social activities are shown as a percentage of the value of the sales or advertising expenditures. For example, to see how well the project is contributing to the social activities.

b. List of socio-economic activity: This list is prepared periodically with the traditional financial statements to provide the social information needed by various groups interested in the social and economic dimensions of the project. Social activities are also classified, in the socio-economic activity list, into three groups, each represents a key area of the social responsibility: individual activities, environmental activities, product activities of a commodity or service. The components of these three areas are divided in terms of their respective impacts into cost of improvements and subtracting the cost of damage.

3. Cash measurement reports for the cost and benefit components: These reports disclose both the costs and benefits of the project's social activities, and are known as input and output reports. They are more comprehensive because they include both the costs and the benefits of the social activities, so that those who are familiar with these reports can obtain a fairly adequate picture of the social performance of the project, although the measurement of benefits is difficult as noted above. As most of them are not achieved for the project but for the society in general. In addition to, the difficulty of determining a cash value of most benefits, unless the personal assessment is used and therefore may not rely on the results significantly. In these reports we can distinguish between the social income list and the list of impact of the social development, as follows:

a. Social income statement: This list shows the net profits or social losses, which reflects the net contribution of the project to the community. The net profits or social losses are reached by adding the amount of the value added by the project. This amount is known as external economic savings or social benefits and the costs are deducted from the product imposed by the project on the society, i.e the value of damage to society as a result of the project's economic activity. These damages are defined as negative effects of the external or social costs. This list begins with the end of the economic activity as a starting point in this list, which is the value added (net accounting profit) and this list is comprehensive.

b. List of social impact: According to this list, the benefits are determined on the basis of the value of the benefits to the community, while the costs represent the value of the sacrifices made by the community for the project or the damages caused by the project to the society. The social benefits according to this list include all the benefits that the project has provided to the community and gained something against it. As well as all the benefits for which no income has been received or for which compensation has been received but not sufficient. The social costs are any sacrifice or damage to the community or to one of its components, which include all the sacrifices made by the community to the project and the project is paid for. The social costs also represent the value of the damage caused by the project to society

II. Integrated financial and social reports: This trend is based on giving a comprehensive picture of the overall performance of the project, so that both social and financial information are integrated into a single report and integrated within the traditional financial reporting framework. So that the social information becomes part of the financial information. Supporters of this trend rely on two main arguments: (9)

- Social activities actually affect the results of economic activity and therefore should be reflected in the financial reports or else, their results are misleading.
- The project is one single, indivisible unit, and therefore both its economic and social objectives are integrated and together represent the overall objectives of the project.

Two types of consolidated reports can be presented as follows:

1. Profit list amended with the settled burdens of the social responsibility: This list aims at showing the effects of the environmental and social contributions of the project on the net profit. The impact of the environmental and social contributions imposed by the sovereign decisions on this profit, as well as the impact of optional environmental and social contributions.

2. Statement of financial position adjusted by the impact of social contribution: This list aims at providing information on resources available for use in environmental and social performance and the corresponding rights of others. This is useful in identifying the elements of wealth that generate environmental and social contributions in the future. And the corresponding funds allocated by the project for acquisition.

## XI. JUSTIFICATIONS FOR DISCLOSURE OF SOCIAL ACTIVITIES

By looking at and tracking of the historical development of the social responsibility, it is clear that the purpose of spending on the social activities did not stem through the moral aspect of

companies. It is the result of the pressure exerted by the trade unions and professional associations concerned with the social responsibility and the obligations of the international charters to abide by the moral values of respect for the human rights and the protection of the environment.

Therefore, some of the views calling for the disclosure of the social responsibility can be criticized through several aspects:

The first aspect: The principle in the emergence of the social responsibility as the main goal of companies is to maximize profits first and last, and no doubt that the social costs are a burden on the profits and therefore do not prefer to separate them from the economic activity.

The second aspect: Some methods of disclosure address the disclosure of the social benefits, which are undoubtedly difficult to measure the financial values or determine the size of these benefits, even if estimated.

The third aspect: The separation of the economic activity from the social activity gives misleading information to the users of the lists or the decision makers as the quality of the product.

The fourth aspect: There is no doubt that the use of the social responsibility by companies has a special purpose and related to the economic activity, whether it is related to the continuity or to the futures contracts or marketing of their products.

The social activity can therefore be seen as an integral part of the economic activity and must be considered in terms of the purpose of expenditure.

## XII. DIVISION OF SOCIAL ACTIVITIES IN TERMS OF THE PURPOSE OF SPENDING

1. Self-costs: These costs arise from the company without a binding law, and can be divided into two types:

a. Non- economical-feasibility costs: They are derived from ethics to help and contribute to the society without any economic feasibility, and are considered as donations, provided that there is no announcement of the company or its products.

b. Effective costs with economic feasibility: These costs are related to improving the quality of the product in order to increase their sales, and are considered to be part of the costs of the product.

2. Advertising costs: These costs are spent by companies on the social responsibility for the purpose of promoting and advertising of the company, which show the strength of the company and its status in the community, such as support of scientific conferences, contribution to afforestation and construction. They differ from donations with an offer for the name of the company as a shareholder or supporter, and these are among the marketing expenses.

3. Compulsory social costs: These costs are of a mandatory nature and have binding laws. Companies are exposed to complaints and penalties if they violate laws, such as health, environmental protection and waste disposal laws, which are considered as costs to these companies, which led companies to establish their factories in countries where there are no laws to protect the environment or weakness of its laws, or the countries with the most administrative corruption to get rid of the burden of these costs, and the treatment varies in the income statement according to the cost centre.

The following diagram shows the breakdown of social activities in terms of expenditure target:

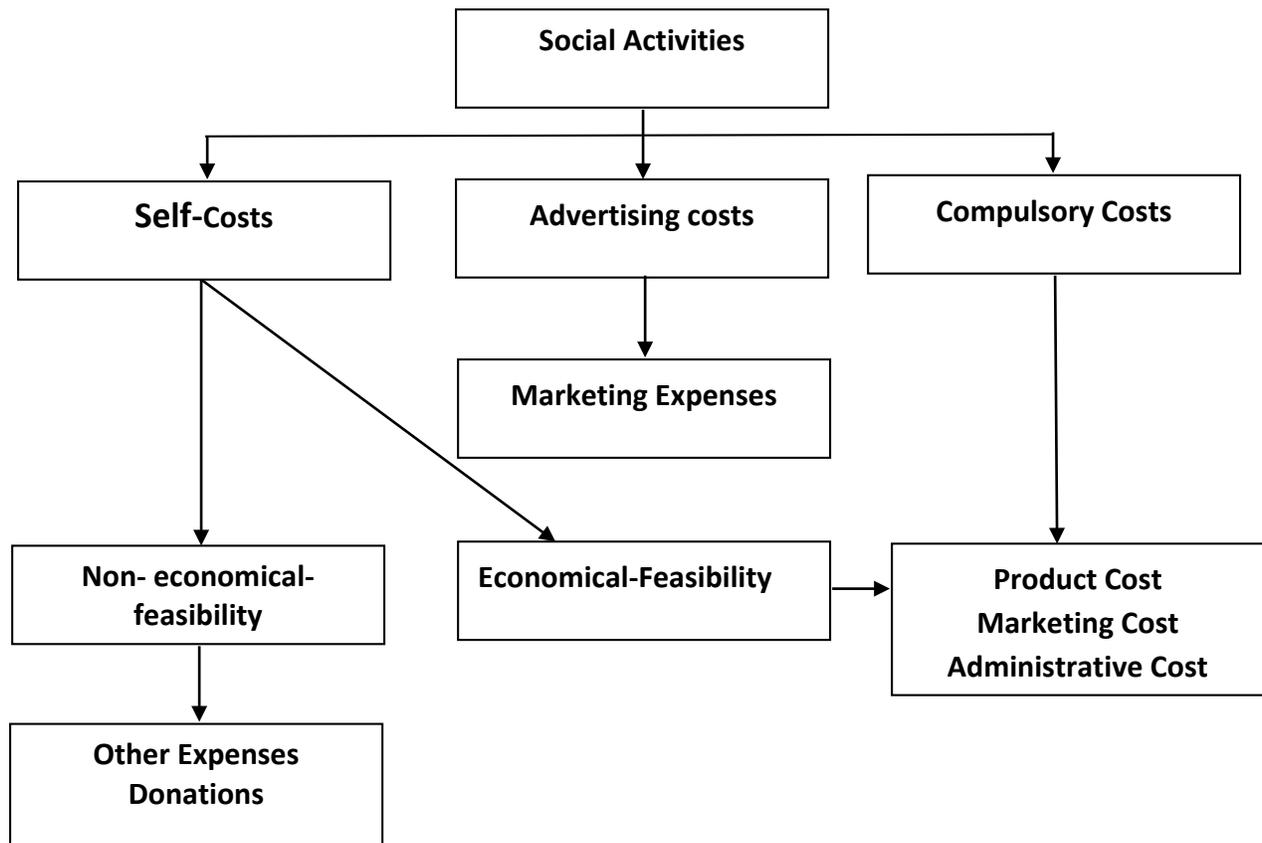


Figure (1) illustrates the division of the social activities in terms of expenditure.

### XIII. EXPLANATION OF THE PROPOSED MODEL

- 1- The model is divided into four activities:
  - a- For the social activities of the product.
  - b- For the social activities of the employees.
  - c- For the environmental social activities.
  - d- For the social activities of the community.
- 2- The model demonstrates the legal obligation for the benefit of the users to make decisions, as well as the voluntary obligation.
- 3- One of the social responsibility symbol "A, B, C, D" shall be placed on the item both in the income statement or in the statement of the financial position list.
- 4- The data exists in the proposed model "G.N.Y" is hypothetical.
- 5- The attached model only represents the general form of the model (G.N.Y) and not the final form.

Model G.N.Y

No	Social activities	Obligatory		Unit	Description
		compulsory	reality		
A	Social activities of product				
A-1	Product quality	Standards of quality of Libyan food	Standards of WHO	--	The standards of WHO are higher the quality standards of Libyan food quality
A-2	Packing	Standards of quality of Libyan food	Standards of WHO	--	The standards of WHO are higher the quality standards of Libyan food quality
A-3	Prices	--	--		The products of the company have been suitably priced to all parties and in competition prices to similar products
B	Social activities of workers				
B-1	Nature and Safety of workers	BS OHsas18001	ISO45001	--	The ISO45001 in instead of BS OHsas18001 and it is better quality
B-2	Appointing workers with special needs	7%	9%	Out of total workers	The company appointed 22 workers with special needs in equivalent salaries of normal workers considering their disability percentage.
B-3	Workers' training programs	--	20	Out of total workers	20 persons of the company personnel have been trained according to a training plan for all workers
C	Social activities of environment				
C-1	Lands	Libyan Environment legislations	Libyan Environment legislations	--	The company applies the Libyan Environment legislations binded by them
C-2	Air	Libyan Environment legislations	Libyan Environment legislations	--	The company applies the Libyan Environment legislations binded by them
C-3	Area afforestation	5000		Tree	The company raised their contribution in protecting the environment by allocating bigger area for afforestation
D	Social activities of community				
D-1	Settling income tax	3	1	Month	Payment is effected according to the Libyan legislations and within the legal period
D-2	Settling social insurance	3	3	Month	Payment is effected according to the Libyan legislations and within the legal period
D-3	Donations	--	135000	LD	The company donated as a contribution in building a health centre and the deductible amount is from the income LD 25000

XIV. RESULT ,RECOMMENDATIONS AND CONCLUSIONS

First: Results

1. Not to harm the accounting system of companies or modify thereof.
2. Social costs are an integral part of the economic costs of the economic unit.
3. The "G.N.Y" model is the only form that illustrates binding and voluntary social activity.
4. Adoption of the model on the need for users of social responsibility information to ensure that the company does not violate the laws.

Second: Recommendations

1. Taking care of the social responsibility by professional institutions and organizations and issuing laws and standards binding on companies to disclose and punish those who violate them.
2. Integrate social responsibility costs into economic costs because they are an integral part of the economic unit.
3. Disclosure by marginalization in the financial statements by taking the symbols "A, B, C, D" and to be described in the "G.N.Y" model, which demonstrates the legally binding and non-binding giving the fact that companies voluntarily contribute in as a social responsibility.

4. Compelling users to apply the "G.N.Y" model for their need to see whether companies comply with laws and regulations.

#### Third Conclusion:

1. Maintaining of the main objective of companies "maximize profits".

2- Adopting of the model on the need of users of the financial statements and the extent of the company's compliance with the laws to avoid fines and penalties.

3. The possibility of modifying the model to modify (add and include disclosure) according to the laws of each country or to add any non-legally binding disclosure.

4. Reduction of application cost and its easiness.

5. Does not violate the accounting system and there is no need to evaluate, adjust and separate the social costs from economic costs.

6. It does not influence the decision-making process such as goods pricing because there is no separation of costs.

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