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Wilde, Harold Heye

**A SURVEY OF THE ATTITUDES OF SOUTH DAKOTA SMALL BUSINESS
OWNERS AND/OR MANAGERS TOWARDS SOCIAL RESPONSIBILITY
ACCOUNTING**

The University of Nebraska - Lincoln

PH.D. 1981

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PREVIEW

A Survey of the Attitudes of South Dakota
Small Business Owners and/or Managers
Towards Social Responsibility Accounting

by

Harold H. Wilde

A DISSERTATION

Presented to the Faculty of
The Graduate College in the University of Nebraska
In Partial fulfillment of Requirements
for the Degree of Doctor of Philosophy

Major: Interdepartmental Area of Business (Accounting)
Under the Supervision of Professor John W. Goebel

Lincoln, Nebraska

December 1981

TITLE

A Survey of the Attitudes of South Dakota Small Business Owners
and/or Managers Towards Social Responsibility Accounting

BY

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APPROVED

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ACKNOWLEDGEMENTS

The accomplishment of a task such as this is generally the result of the combined efforts of several individuals. I would like to take the time to thank each of those individuals who have helped me through this project.

I would like to recognize the support and encouragement of my family. My wife Roni and my daughters Lisa, Darci and Leslie were always considerate and supportive of this effort. Without their understanding and encouragement this project may never have been completed.

The debt of gratitude that I owe to my graduate committee can never be repaid. The continued guidance of my chairman, John Goebel and professor Robert Raymond is forever appreciated. The other members of my committee, professors William Curtis, Thomas Iwand and Keith Browman also contributed their time in the writing of this dissertation.

I would also like to recognize the work of two friends who provided editorial assistance. Laurel Gunderson and Marcella Hurley gave their expertise in the written expression so generously that I owe them a debt of gratitude.

Lastly, I would like to thank my typist, Charla Brunick, who provided excellent typing and commitment to a deadline for which I am grateful.

INTRODUCTION

A major function of accounting is to provide information to support or to aid the decision-making process of organizations. Those decisions are generally tied to some quantitative measure of an action of the individual entity (the term entity is being used here to describe business forms, individuals or governmental units). Before accounting can provide the quantitative information necessary to support the decision-making process, accountants would be required to select the specific activities to be measured, as well as the measurement instrument or the method to be used. This dissertation is concerned with the selection of the specific activities.

Increasingly, the opinion is being voiced by individuals and groups in this country, as well as without, that accounting does not select for recording and reporting all of the activities relevant to the decision-making process. For example, there is no recording in accounts of the indirect costs, or of the possible benefits derived from the production process. The true cost, or the benefit to society of having pollution-control devices on automobiles, for example, is simply not known. Prohibiting the use of certain chemicals in the environment, or

providing employees paid leave to serve on community action committees are examples of unrecorded actions which demonstrate the wide range of implied social as well as economic impact. These activities are commonly termed "externalities" because they are viewed by accountants as being outside the normal profit making structure of business entities.

For the business entity to recognize unrecorded costs or benefits, a system within which recognition and measurement can take place is essential. This system of recognition and measurement has been named "Social Responsibility Accounting", or SRA. One notes that there are other terms used to describe this system; those terms include: Social Accounting, Social Economic Accounting, and Social Auditing. Throughout this dissertation, SRA will be used to refer to the system of recognizing and measuring unrecorded costs or benefits to the organization.

The scope of SRA encompasses the concept of business having a social responsibility and the method of accounting for that responsibility. Much research has been conducted in this field. All of the research, however, has to date been concerned with the large corporation and its interaction with society. The research of SRA in the small business environment cannot be found. The purpose of this dissertation is to extend the study of SRA in organizations to the small business. This expansion of the study of SRA

will be accomplished by surveying the attitudes of small business operators regarding specific social actions that might apply to the small business firm.

This paper is divided into three major chapters and a section for concluding comments. Chapter one examines the need for studying the small business, relative to SRA; and introduces the concept of the social responsibility of business; and provides a discussion of SRA.

Chapter two describes the methodology of research used. In this chapter, several methods of gathering data from small business firms are reviewed. Also reviewed in chapter two are the process of selecting the general population to be conscribed, and the identification of the specific sample of the population to be surveyed.

Chapter three presents the results of the survey. Included in these results is the analysis of the new data provided by the survey. The questionnaire used in this survey is divided into several sections, each section analyzed separately, with a summary analysis closing the chapter.

The last section of this dissertation contains the concluding comments and recommendations for further study.

CHAPTER I

SOCIAL RESPONSIBILITY ACCOUNTING (SRA)

The function of this chapter is to discuss the need for studying small business in relation to SRA, to introduce the concept of business and social responsibility, and to explain the integration of this concept with accounting.

The need for studying the relationship of small business and SRA is demonstrated by reviewing the relative importance of the small business sector to the U.S. economy. Also, in this section the reasons for selecting South Dakota small business firms as the study population are presented.

The discussion of the concept termed the social responsibility of business is devoted to explaining the concept itself and examining some reasons for its current importance. The reasons for the current importance of the social responsibility of business are considered to be the evolution of the general ideology of society and the changing form of capitalism caused by an evolving social structure. This growth in importance of the social responsibility of business concept has caused the need to

identify and measure the social actions of business entities so as to provide information to concerned parties about these actions.

The third section of this chapter, the SRA section, integrates the social responsibility of business and accounting. As previously mentioned in the opening comments of this paper, decision making is an important part of the field of accounting. It is difficult to make good decisions without information being made available in a useable form to the decision maker. The accountant is assumed to have the primary responsibility for establishing a system of accounting for the social responsibility action of business. This section develops the concept of SRA and the pragmatic structure that surrounds that concept. This pragmatic structure includes a review of SRA objectives, actions, models, and reporting (including sample reports).

The Need for Studying Small Business

Economic Significance

There has been nothing written that could be located in a review of literature for this paper on small business and social responsibility accounting and yet a need for such research exists. The Small Business Administration issued a set of statistics showing the relative importance of small business to the economy. Small business accounts for:

95 percent of the business concerns in the nation
37 percent of the Gross National Product
70 percent of the total dollar volume of wholesaling
72 percent of the total dollar value of retailing
82 percent of the total dollar volume of service industries, and

85 percent of the total dollar volume of construction.¹

Small business is a significant proportion of this country's economy and; therefore, should be included in any attempt to define the social responsibilities of business, and the accounting for those responsibilities.

The American Institute of Certified Public Accountants (AICPA) has also noted a need to distinguish small business from large business. In the recent past this group has established two divisions of membership based on service to big (SEC registrants) vs small clients. The AICPA also established the Committee on Generally Accepted Accounting Principles for Smaller and/or Closely Held Businesses to identify the ways and means of accounting for small business entities in the United States. These actions show that the accounting profession is concerned with potential differences between large and small business with regard to traditional accounting. It seems reasonable

¹E. James Burton and William Hillison, "Big GAAP/Little GAAP: Is Accounting For Small Business in the Balance?" American Journal of Small Business, Vol. III, No. 3, January 1979, pp. 16-24.

to extend that concern to the issue of social responsibility accounting as well.

Government Regulation

Another important occurrence that causes a need for including the study of small business in the field of (SRA) is government business regulation. Initially, only large business firms were affected by the regulatory powers of government, but as Exhibit 1-1 shows, small business is also affected. Exhibit 1-1 is a sample of government regulation of business. The area of employment practices, the subject of Exhibit 1-1, was selected because it affects many small business entities. A review of Exhibit 1-1 shows that there is substantial regulation of the employment practices of small and large business.

In a study done by Harold C. Donofrio, president of the Richardson, Myers, and Donofrio advertising agency in Baltimore, other examples of the affect that regulation has on small business were noted. Some of Mr. Donofrio's findings are:

A medium-sized filling station operator spends 610 hours annually completing forms for federal, state and county governments. That's about one-fourth of his work time--the exact national average as indicated by small business surveys which show owners dedicating 25 percent of their time to regulatory paperwork.

A successful boutique owner won't expand, if it involves hiring anyone who isn't a relative to avoid regulatory innundation. She cheerfully admits there are dozens more qualified applicants available but says "once one agency starts snooping, they'll all come down on you like a duck on a June bug." This

Exhibit 1-1

MAJOR FEDERAL FAIR EMPLOYMENT PRACTICES REGULATIONS

Regulation	General Coverage	Private Employer Jurisdiction	Affirmative Action Requirements
Title VII of the Civil Rights Act of 1964, as amended.	Discrimination in employment on the basis of race, color, sex, national origin, or religion.	Employers with 15 or more employees.	Affirmative Action may be included in a conciliation agreement or by court order.
Age Discrimination in Employment Act of 1967, as amended.	Age discrimination in employment of persons between the ages of 40-70.	Employers with 20 or more employees.	Affirmative Action may be required after discrimination is found to exist.
Equal Pay Act of 1963, as amended.	Discrimination in compensation on the basis of sex.	Employers under coverage of the Fair Labor Standards Act.	Affirmative Action other than salary adjustment and back pay is not required.
Executive Orders 11246, 11375, and 11141.	Discrimination in employment on the basis of race, color, religion, national origin, sex, or age.	Employers holding federal contracts or subcontracts in excess of \$10,000.	Written Affirmative Action plans are required of federal contractors and subcontractors with contracts in excess of \$50,000 and 50 or more employees.
Vocational Rehabilitation Act Amendments of 1973 and Executive Order 11914.	Discrimination in employment on the basis of physical or mental handicap.	Employers holding federal contracts or subcontracts in excess of \$2,500.	Same as above.
Vietnam Era Veterans Readjustment Act of 1974.	Discrimination against disabled veterans and Vietnam war veterans, but more of an Affirmative Action order than anti-discrimination policy.	Employers holding federal contracts or subcontracts in excess of \$10,000.	Same as above.

Daniel G. Gallagher, "Fair Employment Practices Regulations Affecting Small Business Employee Recruitment and Selection," American Journal of Small Business, Vol. III, No. 3, January 1979, p. 7.

fear is typical and too many cases are documented to dismiss this attitude as pure paranoia.

A small retailer was left with thousands of dollars inventory in banned 23 channel CB radios when the FCC refused to permit their sale after deadline because the ruling had been published in the Federal Register. Unfortunately, like many small business owners he did not subscribe to the Federal Register. Even if he had, it's questionable whether he would have the time or ability to wade through its 77,000 pages of bureaucratic jargon to interpret which regulations applied to his operation and when.

Many small business managers have begun to submit phony figures since they lack the resources to hire accountants or attorneys . . . and are forced to file even if they pay the \$500 penalty. One owner, simply closed his shop, sending the packet of forms back with a terse note: "You win. I quit."²

Donofrio states that small business cumulatively spends nearly \$3 billion annually to complete some 850 million pages of government forms.

As shown by Exhibit 1-1 and Mr. Donofrio's study, small business is finding itself subjected to government regulation. In all likelihood government regulation of social issues such as environmental considerations, product safety, work place conditions, etc., will continue to grow. Large corporations are already constrained by many such regulations and it is probable that small business will also feel the effects of this type of regulation in the future. In order for the small business person to be

²Harold C. Donofrio, "On Comprehending and Managing Excessive Governmental Regulation of Small Business," American Journal of Small Business, Vol. IV., No. 4, Spring (April-June) 1980, p. 6.

effective in the decision making endeavor he must have accurate records of the regulatory effect, and for that matter, of other social effects caused by the firm. It is assumed by many that the job of accounting is to provide this record, as it provides information to owners, managers, and other interested parties.

Population for this Study - South Dakota Small Business

The state of South Dakota is dominated by small businesses of all forms, including mineral extraction, manufacturing, wholesaling and retailing. It is felt by the author that the people who operate the South Dakota small business establishments are not significantly different from any other set of small business operators in rural America. The small business entities in the state should provide a solid basis for an initial review of the attitudes and concerns of small business operators in terms of social actions. This study, therefore, will concentrate on businesses located in South Dakota.

The remainder of this chapter concentrates on the two major areas mentioned earlier. First, the idea or concept of business and social responsibility will be reviewed, and second, the application of the concept of business and social responsibility will be integrated with the field of accounting.

Business and Social Responsibility

The American social unit, with several different sub-cultures, daily discovers the implications of the statement "no man is an island unto himself". Countries around the globe are feeling the effects of pollution of the air and water as well as the crunch of inflation. The people of these countries are calling for social change in dramatic fashion that include revolution and nationalization of business entities. Business represents power and wealth; therefore, is viewed as the socio-economic participant with the money and power to correct the problems of society. Since society is looking to business for social action, business is being forced to consider its social responsiveness.

Robert Anderson, Associate Professor of Administration at the University of Regina, defines the concept of the social responsibility of business as:

The obligation to assess the effects of personal and institutional decisions (and ensuing actions) on the entire social system.³

This definition portrays a view of business that is quite different from the traditional one of earning a profit. The explicit recognition that we are all part of a larger system is critical to understanding the concept of social responsibility. Simply stated, business must view itself

³Robert Anderson, "Social Responsibility Accounting: Time to Get Started," CA Magazine, February 1977, p. 29.

as a means rather than an end. The society in which a business entity operates will establish the ends (desired goals) for its members through member interaction. These desired goals are not static, but are dynamic. As society's general ideals or values change, so do the goals established for the business sector. A prime example of an ideological change affecting business is the recent call by the newly elected government in France for nationalization of a few basic industries.

In an address before the New York State Society of Certified Public Accountants, William G. Von Berg, then President of the Sybron Corporation stated:

. . . with few exceptions, corporations have always been socially responsible . . . during the early years of the industrial revolution societies' needs were best met through the production . . . of . . . goods . . . when society demanded cars, it got cars . . . naturally, society has always paid a price to have its needs fulfilled, and the price has always been above the monetary one expressed on a price tag . . .⁴

Von Berg went on to describe examples of these other prices (costs): such as, child labor abuses, fourteen + hour days in factories, dirty and unsafe working conditions, and others; indicating that society wants these costs brought into the production function. These costs are commonly termed "externalities" by economists. Naturally there are some business actions that have secondary

⁴"Accounting for Responsibility, an address by William G. Von Berg, May 1972," Journal of Accountancy, November 1972, p. 71.

or external benefits rather than costs. Externalities can be either a benefit (economy) or a cost (diseconomy) depending on the particular social action.

Culture and Ideology

Society is calling for a redefinition of the traditional business institution. The business society of today is in the center of a shift in cultural values and ideologies held by the general populace. George Cabot Lodge, student of United States society and culture stated:

The United States is in the midst of a great transformation comparable to the one that ended medievalism and shook its institutions to the ground The old ideas and assumptions that once made our institutions legitimate are being eroded . . .⁵

Carl Madden, author of "Clash of Culture: Management in an Age of Changing Values," views the situation more pragmatically when he stated:

The survival value of industrial society itself is being questioned in an unprecedented way Today we are beginning to realize that we live together on a planet of limited size and resources relative to our demands on its physical resources and its envelope of surface earth, air, and water . . .⁶

We are in an age of increasing awareness of the interface of all subsystems of nature and society. This awareness is in part a result of a better educated

⁵George C. Lodge, The New American Ideology, (New York: Alfred A. Knopf, Inc.), p. 3.

⁶Carl H. Madden, Clash of Culture: Management in an Age of Changing Values, (Washington, D.C. 20009: The National Planning Association), p. 3.