Social Audit: A Mess or Means in CSR Assessment?

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1 Introduction: What Is Social Audit?

Since the initial recognition of Corporate Social Responsibility (CSR) in the 1960s, companies worldwide have been placed under increasing scrutiny with regards to their level of social performance; namely their positive or negative impact on stakeholders, the community and the environment. Slowly, a notion developed that, by comparing different companies' sustainability performance, stakeholders would be able to influence the social responsibility of businesses either by pledging their support to, and investing in good performing companies, or alienating and withdrawing from poorly performing companies.

Throughout the years companies have organically developed their own codes of conduct and they have gradually collated and released CSR reports voluntarily in order to respond to the increasing pressure from stakeholders to improve their social, environmental and ethical standards. However, while corporate governance, and the use of CSR reports, has grown exponentially throughout the years, the same cannot be said about the manner in which the data is gathered and processed. The vital importance of ensuring "quality" CSR reports has attracted substantial attention from scholars, who, for the past four decades, have been trying to determine whether or not companies are effectively managing to meet stakeholder demands. To establish this, focus has been directed towards the level of social accounting and more specifically, about the efficacy of social "audits" being conducted by companies themselves (Gray et al., 1996). The data, presentation and practice of social audits varies so significantly between corporations, industries and jurisdictions that it has proven very difficult for any accurate and meaningful analysis to take place. While various attempts have been made to establish a universal standard for social

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auditing, variations among corporations of the notion, interpretation, preparation and implementation of social audits have resulted in some barriers to such system (Owusu & Frimpong, 2012; Perrini, 2006). Nonetheless, social audit may be broadly defined as a way of analysing, measuring and reporting an organisation's social and ethical performance by scrutinising its nonfinancial activities which, directly or indirectly, impact stakeholders (Ghonkrokta & Lather, 2007). In other words, it is a means of formally measuring and recording the level of a company's social and environmental performance with regular monitoring through the collection of data from interviews, documents and inspections gathered within an organisation (Björkman & Wong, 2013).

Similarly to its definition, the real purpose of social audit is also interpreted differently depending on the corporation or jurisdiction. For example, one justification for a corporation to gather sufficient information about its own social performance, would be to directly determine the extent to which it is able to meet the values and objectives it has committed itself to (Björkman & Wong, 2013; Locke, Qin, & Brause, 2007). Alternatively, a company with high CSR performance may release the collated social performance data to its stakeholders so that they may compare such data with equivalent data from other companies, possibly raising the profile and popularity of the well performing company. Lastly, social audit is seen a means of assurance, relied upon by governments, to ensure that companies are collecting social and environmental data and disclosing it in a satisfactory manner.

Social auditing facilitates a transparent control and monitoring mechanism of individual companies. This allows stakeholders to evaluate a corporation's social performance against particular standards or expectations, ultimately taking the role of instruments of social accountability for an organisation similarly to a financial audit (Hess, 2001; Kurian, 2005; Timane & Chavan, 2012). A financial audit provides verification of the financial statements provided by a company and provides an assurance that the financial statements are true and accurate, thus increasing the value and credibility of the statements. Similarly, a social audit can verify the CSR of a company by demonstrating how social and environmental programs are being carried out. If these actions reflect social, environmental and community objectives, stakeholders will have an increased confidence in the company and its values. Also, like financial audits, the purpose of social audits is not to place judgement on the performance of a company (Kurian, 2005), but instead, to focus on the data verification, and evidence gathering, for all significant assertions in the report.

The manner in which social and environmental information is gathered and processed in a social audit varies significantly. Data may be collected and verified by the company itself, by a hired external and independent consultant, by a NGO representative or even by a dedicated government entity (Courville, 2003). Each of these different bodies has started to recognise the importance and value of social audits and is promoting their uptake.

2 Importance of Social Audit

Though still in its infancy (Dando & Swift, 2003), social auditing plays a fundamental role in upholding Corporate Social Responsibility and is proving direct and indirect benefits to both the company and its stakeholders (Miles, Hammond, & Friedman, 2002; Owusu & Frimpong, 2012). Reviewing the socially responsible practices and impact on stakeholders, and comparing the level of social performance in relation to pre-set social, environmental and community goals (Ghonkrokta & Lather, 2007), provides valuable information and insight to a company. This, in turn, leads to a better self-assessment and establishment of the strengths and deficiencies present within a corporate strategy. Such knowledge, allows companies to implement improvements leading to a more efficient social performance, which in turn leads to the enhancement of a company's image (Humble, 1975; Kok et al., 2001). In fact, where a company has a good social performance, a social audit has the potential to safeguard its image in the case of a particular event leading to negative publicity, or simply, enhance a company's reputation, image and relationship with stakeholders by demonstrating its social performance and its commitment to social objectives (Owusu & Frimpong, 2012). Furthermore, regular yearly social audits allow companies to compare their own social performance over time as well as against external norms and standards and competing companies (The Seep Network, 2008).

In addition to allowing companies to increase their image and performance by providing valuable data, social audits play also an important role in increasing an organisation's transparency and accountability to its stakeholders (US Aid, 2008), much like a financial audit does. They inform the community, the public, as well as other organisations, about the allocation of companies' resources invested in the organisation itself: such as the sustainability of the company, the treatment of its employees and the impact on the environment. This, in turn, stimulates healthy competition between companies to increase their social performance as stakeholders and investors rely on the social responsibility reports to establish whether a corporation is achieving the goals it has set itself and how it is performing against other companies. This leads companies to a race of maintaining the best reputation and thus maintaining or gaining an increased market share. Transparency in fact, has become a key element required by stakeholders when reviewing CSR reports. It falls in line with two renowned theories, namely stakeholder theory and legitimacy theory. According to stakeholder theory, (Roberts, 1992; Roberts & Mahoney, 2004) since corporations are actively taking advantage of, and relying upon, social and environmental resources, stakeholders have the right to be informed about their actions (Owusu & Frimpong, 2012). Legitimacy theory (Deegan, Rankin, & Tobin, 2002; Magness, 2006) emphasises the existence of a relationship between a company and the society it directly or indirectly affects, as well as the responsibility on the organisation's part to disclose its overall impact on such society. This theory emphasises the importance of community expectations in ensuring the survival of an organisation (Owusu & Frimpong, 2012). In Chapter "Corporate climate

change-related auditing and disclosure practices: are companies doing enough?", Shamima Haque extends this issue taking climate change and its impact assessment for the society at large; it explores how the climate change related 'disclosures' of corporations can serve as a tool for auditing corporate accountability practice to climate change.

Both the stakeholder theory and the legitimacy theory are commonly referred to when promoting the uptake of social reporting (Laan, 2009). Although corporate social and environmental reporting is mostly a voluntary practice, increasingly, organisations are being legally required to disclose information about their interactions with, and impacts on, society. This transition has been supported by a range non-government organisations (NGOs) and regulatory agencies as well as ethical or socially responsible investment fund managers (Laan, 2009).

In addition to allowing companies to analyse and determine the practicality and efficiency of their corporate social and environmental strategy and providing stakeholders with accurate non-financial data, social audits also play an important role in helping governments monitor companies and hold them accountable when breaching certain social, ethical and environmental standards. In fact, social audits are a very important means of assessing the success or failure of a particular CSR regulation (Ghonkrokta & Lather, 2007) and thus serve the purpose of meeting regulatory requirements (Darnall, Seol, & Sarkis, 2009; Owusu & Frimpong, 2012). This is a growing trend, which relies heavily on the assurance that social accounts are audited by qualified and objective social auditors which are independent from management and with no vested interests in the outcome of the audit (The Seep Network, 2008). However this is not the norm and very often, social audits are either conducted by the companies themselves or by an external accountant paid by the company being audited, which could potentially threaten the unbiased nature of the report.

3 Development of Social Audit

While the term "social audit" first appeared in the 1940s and 1950s its notion started to receive significant attention by academic scholars and the business industry in general in the 1970s (Fetyko, 1975; Hess, 2001), mainly as a response to another notion which emerged in the 1960s and started to gain momentum (Hess, 2001), namely corporate social responsibility (Courville, 2003; Fetyko, 1975). As companies started to make reference to their social performance, issues were raised by interest groups in relation to their failure to disclose balanced and accurate information as companies were deemed to have too much control on what information was disclosed and how the information was presented. This called for an independent formal standardised analysis and presentation of information coupled with a lack of management discretion, which ultimately led to the development of social audits (Fetyko, 1975). However, this initial rapid level of interest slowed down during the 1980s (Hess, 2001; Gray et al., 1996), perhaps attributed to seemingly too good stock market results, removing from companies mind the interest of

undertaking their own social performance in exchange with the sole pursuit of profits (Henriques, 2000). Others pointed the finger towards the recession of the early eighties in the US (Hess, 2001). Regardless of both contradicting alternatives, the adoption of social audits significantly increased in the mid 1990s (Gray et al., 1996) led by a number of ethically-oriented companies (Henriques, 2000), NGOs, national governments and socially responsible investment funds.

In the past two decades, social auditing has been consistently adopted across different industries and jurisdictions (Owusu & Frimpong, 2012), driven by companies' own regulatory requirements and pursuit of benefits derived from the portrayal of a positive image. However, while traditionally the role of social audits was perceived to be mainly of a monitoring nature, this notion found itself always losing against the more established corporate goals such as the pursuit of profits (Spira & Page, 2002). This has mostly been attributed to the fact that social auditing has developed as a voluntary notion and corporate auditors have no obligation to report to stakeholders on a company's social impact on society. Although the concept of social auditing is valuable, it appears not to be sufficient to fulfil its intended purposes.

While throughout the years certain corporations have significantly improved their social reporting practices, concerns have been raised with regards to the actual credibility of corporate self-regulation (Courville, 2003). Pressure from outside groups and stakeholders has led many corporations to release social responsibility reports voluntarily, but the format, content and detail included in the data is often unregulated. This has raised arguments that social audits undertaken with the sole purpose of meeting outside pressures or advertising the company's good deeds are not meaningful (Fetyko, 1975). The lack of regulation allows the reporting companies to decide what information to disclose and in what manner to present such information (Gray, 2001; Laan, 2009). Instead, it would be better to provide assurance to stakeholders in relation to the accuracy and adequacy of a social responsibility report through the development of a regulatory system which establishes a standard for auditors, the type of relationship they may have with the audited company and the manner in which social audits should be conducted (Dando & Swift, 2003). This would make social audits far more valuable as they could be used to verify the validity and accuracy of the information in a CSR report.

Over the years there has been a number of "green wash" scandals uncovered which have understandably reduced stakeholders' trust and confidence in the honesty and reliability of CSR reports. This has led to an increased need for social reporting and auditing regulation.

4 Current Trend of Social Audit

Recent years have seen a rise in the general uptake of CSR reporting. This rise has been attributed partly to the voluntary commitment of companies, but, more importantly, it has been linked to the constant increase of legislation and regulation and a direct stakeholder action, which has taken place across the world (Jaramill &

Altschuller, 2013). Countries have begun to realise, that solely relying on market forces to increase corporate social reporting, and, more importantly, social performance, is not bringing the anticipated results. In fact, a lack of mandatory obligations to conduct business activities in a socially responsible manner has the tendency to lead companies to avoid focusing too much attention to, or neglecting altogether any CSR related matters as they do not directly provide an enhancement of profit. However, the imposition of regulations relating to CSR and the monitoring and enforcement of such regulations is clearly challenging and not necessarily the only method to compel companies to behave in a socially responsible manner.

A balanced solution has emerged where governments regulate the disclosure of CSR reports which ensures companies disclose all of their CSR activities, whatever their perceived impact. This could have the desired effect of placing pressure on the company to try to increase their CSR performance to attract investors and raise its profile and reputation above that of its competitors. This notion has gained traction in light of numerous international corporate scandals throughout the years which have produced a growing view that, not only must companies be held accountable for their actions and repair all damages caused by such actions, but that they should also actively provide some direct benefits back to the community. This would not necessitate that a company abandons its main pursuit for profits, but, instead, that a company elaborate "a comprehensive corporate strategy with a balanced business perspective" (Sy, 2013). Furthermore, companies are now starting to realise the potential gain of adopting corporate best practices that go beyond what is necessary for legal and regulatory compliance as a good public image is a crucial marketing asset and its importance just cannot be underestimated (Jaramill & Altschuller, 2013). The most successful attempts to regulate non-financial reporting of companies across all sectors of the economy have taken place in the European Union (EU), in particular, the United Kingdom (UK), France and Denmark, where companies have traditionally been pioneers in the regulation of CSR reporting. In Chapter "Social audit failure: Legal liability of external auditors", Ellie Chapple and Grace Mui focus on the development of financial report auditing standards and legal liability of auditors to raise issues about potential legal liability for social auditors under the current English and Australian case laws. However, many countries, such as the United States (US), have expressed their reluctance to move away from the voluntary model, the main concern being that over-regulation could have a negative impact on financial markets (Tschopp, 2005). In Chapter "United States Accounting Firms respond to COSO Advice on Social Audit, Sustainability Risk and Financial Reporting", Katherina Kinkela and Iona College address the current situation in the United States with particular focus on a recent paper from the Committee of Sponsoring Organisations of the Treadway Commission (COSO) providing guidance on internal controls of corporations.

While CSR has mainly developed within the largest developed countries, it is also becoming a significant topic in emerging countries. In Chapter "Corporate Social Responsibility Assurance: Theory, Regulations and Practice in China", Yuyu Zhang and Lin Liao focus on providing an insight to the development, theories, regulation and challenges of CSR assurance in China, identifying the stakeholders and analysing the strengths and weaknesses of the major social

assurance providers. Further insight in the current CSR trend in emerging countries is expanded upon by Dalia Maimon in Chapter "Social Audit: Case Study of Sustainable Enterprise Index-ISE companies", with her in depth study of the incorporation of social responsibility into the audits of Brazilian companies, exploring the trends and addressing the effectiveness of state regulation as well as by Vien Chu and Belinda Luke which instead in Chapter "Social audit regulation within NGO sector: Practices of NGOs operating in Bangladesh and Indonesia" will focus on investigating the benefits and constraints of social audit regulation of NGOs operating in Bangladesh and Indonesia. An additional overview of social audit in Bangladesh will be undertaken by Tarikul Islam, in Chapter "Social Audit for Raising CSR Performance of Banking Corporations in Bangladesh", which will focus on social audit practices in the national banking sector, in particular in relation to the level of stakeholder uncertainty in regard to bank claims.

However, while both alternative models might lead to a larger uptake of CSR reporting, only the mandatory model has the potential to ensure the quality and consistency of the report. One widely shared concern is that in the absence of regulation, private companies would be reluctant to go beyond their duties and, instead, would address their attention mainly on their own financial issues and pursuit of profits without working towards a socially optimal level of disclosure. It is clear that a voluntary system of reporting has not produced the desired results of influencing companies to significantly focus on their CSR behaviours and actions and that some form of regulation is required to push companies to collate and release accurate and audited non-financial information. While various arguments have been raised in favour (Lennox & Pittman, 2011), Admati & Pfleiderer, 2000; Lambert, Leuz, & Verrecchia, 2007) and against (Lennox & Pittman, 2011; Leuz & Wysocki, 2008; Sunder, 2003) mandating disclosure of accounting information, obliging companies to have their financial statements audited would ultimately be the best way to ensure that outsiders have access to reliable accounting information (Lennox & Pittman, 2011). Otherwise, companies would lack sufficient incentives to provide social and environmental information on a voluntary basis (Lennox & Pittman, 2011).

Currently, most CSR reports vary significantly in format, length and content. While several key international guidelines are available such as the Organisation for Economic Co-operation and Development (OECD), Guidelines for Multinational Enterprises (OECD, 2014), the Global Reporting Initiative Reporting Guidelines, the International Finance Corporation's Performance Standards and the Accountability's AA1000 Assurance Standards, their voluntary adoption does not ensure that they are used at all or closely follow the guidelines. Of these guidelines, the Accountability's AA1000 Assurance Standards have provided a significant development by creating a standardised system for social and environmental auditing (Graham & Woods, 2006). The AA1000S Assurance Standard provides guidance that can be used by stakeholders and regulating entities to judge the quality of a social audit, setting a standard to which social auditors must uphold. The AA1000S Assurance Standard sets out a variety of requirements such as the need for the auditor to establish the extent to which the reporting company has

disclosed adequate and timely information about its activities, performance and impacts on the community and the environment, as well as to determine whether stakeholders concerns have been dealt with (Dando & Swift, 2003). The AA100 Assurance Standards will be further addressed in more detail by Pricila Erminia Riscado, in Chapter "AA1000: an analysis of accountability and corporate social responsibility in the contemporary context". It will discuss the debate over private accountability, focusing on the standard AA 1000 as it aims to disseminate the central position focused on accountability. An additional international perspective is provided by Dominic Soh, Philomena Leung and Shane Leong in Chapter "The Development of Integrated Reporting and the Role of the Accounting and Auditing Profession", which focuses on the recent release of the International Integrated Reporting (IR) Framework in December 2013. It will address the growing trend to improve social reporting as a result of increasing stakeholder demands and regulatory initiatives.

5 Effectiveness of Social Audit

The level of effectiveness of a social audit relies on a number of factors. Scholars have expressed their concern with regards to the lack of legislation regulating social auditors and its effect on the level of uniformity in the findings of social audits (Barrientos & Smith, 2007; Björkman & Wong, 2013). Another criticised aspect has been the level of secrecy generally present with audits, as well as the lack of consistent data collection and analysis, limiting the range of discussion which would potentially be able to solve certain inefficiencies (Björkman & Wong, 2013). Furthermore, social audits tend to be too short and lack sufficient detail to be able to be used to identify particular code violations (Björkman & Wong, 2013).

Such concerns have fuelled ongoing discussions regarding the best structure for audits to follow, for example in relation to the manner and form, as well as the best individuals to undertake such audits (Björkman & Wong, 2013; Locke et al., 2007). The latter being a particular delicate and much focused aspect because of the general lack of guarantee of impartiality on behalf of auditors when assessing the data from a company, especially if this company is the employer of the auditor (Björkman & Wong, 2013; Locke et al., 2007; O'Rourke, 2002; Pruett, 2005). This was witnessed in a report on the examination of labour standards in China and Korea by Prycewater House Coopers (PwC). The report found that "significant and seemingly systematic biases" were present in the auditors' methodologies, which then raises questions as to the possibility of a company being truly unbiased and independent in its auditing process (Graham & Woods, 2006; O'Rouke, 2000). In a further study, Dara O'Rourke found significant problems with PwC's social auditing methods, one of the most important being the management bias in the audit process. The study found that the vast majority of information was gathered from managers, and only a minority from actual employees (Courville, 2003). These issues would be avoided or reduced if the audit was undertaken by an external independent entity otherwise referred to as third party auditors. This

system would be an improvement if compared to the in-house audit but it still does not guarantee to solve all the issues of bias raised in the previous method. In fact, the objectivity of the audit may still be a matter of concern where external auditors are being paid directly by the audited company or may develop long-standing financial relationships with companies and then favour such companies to safeguard their relationship (O'Rourke, 2002). In these instances, auditors may compromise their impartiality and unbiased independence in order to please their clients and ensure an ongoing business relationship (Graham & Woods, 2006). This in turn, would severely impact on the total credibility of those social audits. With reference to the concerns regarding internal and external auditors, the only solution would be the use of a truly independent auditor (Björkman & Wong, 2013; Locke et al., 2007) In order to improve the current social and environmental auditing system there would be a need for the existing principles of the practice to be revised and re-thought (Boiral & Gendron, 2010; Kemp, Owen, & van de Graaff, 2012). The social audit would need to be carried out by an independent entity to the company being audited. The 'external social audit' process would need to be thorough and overreaching, and include investigations, unannounced visits, interviews and monitoring of aspects of organisational activity (Gray, 2000; Pruett, 2005; Mamic, 2005; Locke et al., 2007; Barrientos & Smith, 2007).

Independent third party audits provide an important tool for the regulation of the disclosure of accounting information (Barton & Waymire, 2004; Lennox & Pittman, 2011). Lack of regulation has the tendency to allow companies to focus on their own costs and profit maximisation, while neglecting the accuracy and quality of their social responsibility reports. This has been attributed to the fact that compared to the firm-level benefits society-level benefits are simply smaller (Lennox & Pittman, 2011). However, an increase in government monitoring and regulation does have some drawbacks. It is costly, time consuming and difficult to enforce effectively. In all countries there are gaps in regulatory enforcement due to lack of government capacity (Graham & Woods, 2006). A solution would be to establish a set of standards for social and environmental monitoring mimicking those in financial auditing, and by doing so, removing discretion from auditors and allowing stakeholders to have easy access to the final data (Dando & Swift, 2003). To this end, in Chapter "History and Significance of CSR and Social Audit in Business: Setting a Regulatory Framework", Anjana Hazarika presents a regulatory framework for CSR and social audit based on international guidelines likme the UN, Global Compact, Organisation for Economic Cooperation and Development (OECD) International Labour organisation (ILO) and Global Reporting Initiative (GRI).

While industries have been very wary of governments using too much impositions and controls, it has become evident that, in relation to social audits, companies are reluctant and unlikely to release adequate and comprehensive data "unless their reporting is mandated by the government" (Graham & Woods, 2006). In a voluntary system, if one company publishes detailed information regarding its social and environmental programs, while others either don't, or use CSR reports to disclose information to their personal advantage, then the most honest company would likely suffer the most (Graham & Woods, 2006) and gain no commercial advantage

from their truthful disclosure. A company should not disregard its pursuit for profit maximisation as well as the protection of its interests. However it does owe a duty to stakeholders by accurately demonstrating how well it is performing socially and environmentally, whilst it is pursuing its financial goals. As such, it is important that a company must continuously take into account and respond to public expectations, while still maintaining a level of freedom to determine what is socially relevant and how to achieve its social goals (Fetyko, 1975).

Throughout the book, a number of chapters will provide a series of suggestions in relation to the best regulatory framework to be implemented. In Chapter "Social Audit in the Supply Chains Sector", Samuel Idowu describes the impact of the social audit in the supply chain, assesses the most popular guidelines for this audit and suggests the core requirements of an effective social audit. Adopting a slightly different approach, in Chapter "Fostering the Adoption of Environmental Management with the Help of Accounting: An Integrated Framework", Nuuan Gumarathne provides an integrated gradual framework initially driven by internal or external compliance that would facilitate the adoption of environmental management with the help of accounting. In Chapter "Social audit regulation within NGO sector: Practices of NGOs operating in Bangladesh and Indonesia", Vien Chu and Belinda Luke argue that there is a limited real change in corporate action if there is no government regulation proposing a radical approach such as mandatory monitoring and disclosure requirements necessary to ensure corporate accountability in relation to climate change. They proceed to propose a series of mandatory monitoring procedures and disclosure requirements.

Further advice is provided by Adriana Tiron–Tudor et al. in Chapter "Defining a Methodology for Social Audit Based on the Social Responsibility Level of Corporations", which proposes a framework based on a disclosure checklist simulated on a range of corporate social responsibility set of information, relying upon a sample of annual reports from the most socially responsible corporations worldwide. Finally, in Chapter "New Challenges for Internal Audit: Corporate Social Responsibility Aspects", Adriana Tiron-Tudor and Cristina Bota-Avram attempts to provide a framework defining the role of auditors in corporate social responsibility, focusing on the importance of internal social audit. They provide an assessment of the manner in which ethical environmental and social performance is reported and establishes a recommended procedure to increase the contribution of internal social audit in corporate social responsibility.

6 Conclusion

Even after decades of development, current social and environmental auditing practices are still in their infancy. Doubts still exist regarding the capability of the accounting profession to handle the situation especially when companies and their approaches to social auditing vary so significantly between them (Tipgos, 2000). Whilst concrete attempts have been made to implement social accounting

procedures amongst an increasing number of international firms, the absence of guidance present in the field has undermined many of these attempts. The lack of a reliable monitoring system, in turn, is threatening the potential benefits gained from the current increasing trend of adopting CSR reporting practices, by not being able to guarantee the level of quality of CSR reports. The most effective way of achieving a soial auditing system which can be trusted and relied upon by stakeholders is to implement specific regulation and guidelines which help to ensure a satisfactory collation of data as well as a high level of impartiality by the auditor. Furthermore, in addition to making sure that social audits are conducted effectively, it is equally important to ensure that regulation would guarantee stakeholders full access to this information. Without such a guarantee, there would be a significant risk that the benefits of implementing a social auditing system would not be achieved. In order for social audits to really be effective they must not be hidden and obscured but should instead be released and disclosed in an adequate and clear manner (Graham & Woods, 2006).

As there is currently an increasing worldwide trend to implement CSR legislation it appears that now would be the best time to seriously consider the implementation of social auditing legislation with the desired effect of ensuring a substantial improvement in global CSR.

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