CHAPTER - VII

SOCIAL AUDITING

This chapter attempts to provide an objective assessment of the concept, significance, growth and status of the social audit which is developed as the principal instrument for evaluating corporate social performance. It also identifies the various difficulties in making social audit and suggests some principles to overcome them. The maintenance of an effective social performance system squarely depends upon the Social Assessment system of the enterprise which integrates the processes of accounting, auditing and reporting of the social responsibility performance of the enterprise. It facilitates the building up of a detailed and accurate account of information in a classified manner, to test and prove its authenticity through certification and helps report to various user groups the relevant performance results in a concise, consistent and constructive manner. Thereby, it creates an opportunity for a meaningful interaction among all the members concerned with company and society, and furnishes the basic foundation for sound planning and execution of the social responsibility.

CONCEPT OF SOCIAL AUDIT

There is considerable agreement, at high level of
abstraction, that the business social audit is a report of social performance in contrast to the financial report which is concerned with economic performance. But there ends the consensus. In practice, however, the social audit has created considerable confusion, causing one observer to describe it as "the-great-what-is-it." Semantics trouble!

There are several titles employed in preference to the term 'Social Audit'. Among other terms, the widely used ones are: 'Social Statement', 'Social Report', 'Business Response to Social Priorities', 'Report on Corporate Social Policies and Actions', 'Socio-economic Accounting', 'Social Accounting', 'Social Responsibility Accounting', 'Social Information System', 'Societal Accounting', 'Societally Responsible Accounting' etc.

To understand the nature of these terms, an examination of the different viewpoints is necessary. Robert K. Elliot

employs the term Social Responsibility Accounting. To him it is a systematic assessment of and reporting on those parts of a company's activities that have a social impact. Social Responsibility Accounting would therefore, describe the impact of corporate decisions on environmental pollution, the consumption of non-renewable resources and ecological factors; on the rights of the individuals and groups; on the maintenance of public service; on public safety; on health and education and many other such social concerns.  

Ralph Estes prefers the use of Social Accounting and defines it as: 'The measurement and reporting internal and external, of information concerning the impact of an entity and its activities on society.' 

Social Audit according to Sethi, is a means to breakdown all or large part of the broad term social responsibility of business, into identifiable components and to develop scales that can measure these constituents. Clark C. Abt opines: 'The mission of social audit is to provide more objective, accurate and comprehensive information about an organisation's social performance that is usually compiled.'  

Beesley and Evans write: 'But the term Social Audit has been used rather more commonly, to denote any form of retrospective review of the impact or contribution of the company in recognised social dimensions. (It is) a tool of the socially responsible company, undertaken by itself or admitted groups for the purpose of planning, control or accountability.'

All these definitions give us to understand that the controversy is limited to the use of the title. The purpose, one way or other is to reveal in true and full perspective, with greater accuracy, the performance details of the company in the areas of social responsibility.

Those who prefer the terms other than accounting and auditing suggest that qualitative and descriptive analysis is the only possible means for evaluation and revelation, as methods for quantification are yet to be developed. George A. Steiner is prominent among those who believe that the term audit and accounting carry a connotation of quantification and argues that the term 'social audit should not be used because measurement of performance does not now and probably will never approach in accuracy and acceptability the accountant's audit of economic performance'.

The term Social Accounting has already gained peculiar connotations in the International accounting terminology. According to Kohler, 'Social Accounting is the application of double entry book-keeping to socio-economic analysis of national or international income, national and international balance sheets and design for system of component accounts.' The term, Social auditing, has been treated as synonymous with 'Social Accounting'. The term 'Socially Responsible Accounting' may be interpreted as social responsibility of Accounting profession, as the profession has developed its own social norms. Taking into consideration the conceptual framework, scope and contents of social responsibility Accounting, the terms Socio-economic accounting seems to be more appropriate one. However, in business world, social audit has become popular and it will be only wise to stick to it by prefacing it with the word 'business' to avoid any confusion that is likely to arise.

GROWTH OF SOCIAL AUDIT

The concept of the social audit for monitoring, measuring or appraising social performance is at least forty years

10 Kohler, A., 'Government Spending, its Tasks and Limits,' Social Research, VI, 1939.
old. The use of this concept has evolved through three stages, as detailed in Chart VII.1.

The first stage envisioned a governmental evaluation by an outsider, and defined social performance largely in economic terms. The second stage was the concept of the management evaluating itself and the organisation's social performance. In the third and current stage, audits cover a wider range of activities and serve multiple purposes, such as satisfying the corporate conscience, improving social programs, enhancing public relations and increasing the credibility of the firm.12

The development of Comprehensive form of social audit is due to the following reasons.

1) Openness - Hall mark of civilisation:

Post-industrial society is come to be regarded as a modern and civilised one and organizations are viewed as organic-innovistic - open-creative systems and not as the mechanistic - rigid-closed-bureaucratic systems. The success and progress of pluralistic organisations is dependent on the ability of the organizations to communicate effectively with other constituents in the society and function in a

### Chart VII.1

**Evolution of Social Audit - Concepts**

<table>
<thead>
<tr>
<th>Subject</th>
<th>Krepp's 1940 Audit</th>
<th>Bowen's Audit</th>
<th>Today's Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition</strong></td>
<td>Acid test of business performance</td>
<td>Evaluation of the permanence of business from a social point of view</td>
<td>Measurement of Companies' progress toward social goals</td>
</tr>
<tr>
<td><strong>Purpose</strong></td>
<td>Government evaluation of social business's performance</td>
<td>The Firm's evaluation of its social performance</td>
<td>The Firm's evaluation of its social performance</td>
</tr>
<tr>
<td><strong>Apparent Motives</strong></td>
<td>Establish criteria for future evaluations, Establish the technique for society to influence business performance</td>
<td>Bring social point of view to management</td>
<td>Satisfying the corporate conscience; Improving financial wisdom of social programs; Public relations to enhance credibility of the business firm</td>
</tr>
<tr>
<td><strong>Nature of issues audited</strong></td>
<td>Quantifiable areas; Employment; production; Consumer effort commanded; Consumer funds absorbed; Payrolls; Dividends; Interest.</td>
<td>Company policy towards prices; Wages; Research and development; Advertising; Public relations; Human relations; Community relations; Economic stabilisation</td>
<td>Company performance in: Pollution/environment, Minority employment; Working conditions; Community relations; Philanthropic and Consumerism issues.</td>
</tr>
<tr>
<td><strong>Use</strong></td>
<td>By society to assess business performance</td>
<td>By management to assess its performance</td>
<td>Divided between two schools of thought: One group feels it should be only for management's use. Another group feels it should be a public document.</td>
</tr>
<tr>
<td><strong>Methodology</strong></td>
<td>Evaluation of public information employing economic indices</td>
<td>Judgemental appraisal of company policy</td>
<td>Monitor, measure, and appraise all aspects of social performance using various techniques—cost vs benefit, accounting etc.,</td>
</tr>
<tr>
<td><strong>By whom conducted</strong></td>
<td>A Government bureau</td>
<td>Internal personnel or an Industrial agency</td>
<td>Internal personnel or consultant</td>
</tr>
</tbody>
</table>

**Sources:** Caroll, Archie B., and Bailer, George W., 'Landmarks in the Evolution of the Social Audit', *Academy of Management Journal*, September 18, 1975, p.596.
coordinated and purposeful manner. A systematic appraisal
and reporting therefore, are indispensable to channelise
energies into new avenues of endeavour.

2) **Gain public approval and rapport:**

Society has become less tolerant and more demanding.
In many a case, society views the process of performance
too slow, not because implementation is not carried but be­
because aspirations outrun the ability to perform.

"At any given moment the public must have in mind
some criteria, however imprecise, of what consti­
tutes a satisfactory performance by business. The
public keeps raising standards - as, in an achiev­
ing society, it should. Trouble develops because
the public is not aware of how rapidly it raises
its standards. Because it believes its standards
are unchanging it tends to perceive business per­
formance as moving backward."\(^1_3\)

"Also, society appears to be changing the 'rules of
the game' for business organisations. No longer
will effectiveness be measured exclusively in terms
of economic performance for example, there is grow­
ing interest in the development of national social
indicators and a program of social system accoun­
ting."\(^1_4\)

\(^{13}\) Ways, Max., 'Business Needs Do a Better Job of Explaining
Itself', *Fortune*, September 1972, p.86.

\(^{14}\) Bauer, Raymond A., *Social Indicators* (Cambridge Mass:
It is evident that the expectation-performance gap, if not convincingly explained to public, it causes a serious damage to the standing and reputation of the socially responsible enterprises.

3) Preserve autonomy:

If business remains unresponsive to the demands for disclosure of information and tries to evade by making statements, advertisements etc., in a flattering, flowery, and descriptive language, the society forces upon the business community by government the 'social reporting system' in the form of somewhat blunt, inflexible and mandatory regulations. On the other hand, if corporations take active lead in the definition of this evolving paradigm, they can seize the opportunity to develop a system of accountability which is best suited to the needs of business and society and thereby regain the public confidence which is essential to the success of the free enterprise system. Of course, there are many technical, social and political obstacles to the development of a workable social reporting system, including difficulties in method and measurement of information, the lack of various types of information, and problems involving in certification, dissemination and implementation of audit.

results. Difficulties are nothing but natural to any system particularly in its offing stage. As the system grows the elemental parts, in the case, the social information system, the social accounting system, and social auditing system learn through experience, ways to overcome them and become capable of fulfilling the objective of providing fair and true information to all stakeholders.

4) **Systematised and sophisticated communicating tool:**

Depending upon the degree of willingness of company to communicate openly, the reporting methods vary from flashy public relations brochures to detailed status reports. The recognised means are:

1. Publicising involvement in social affairs through news letters and other reporting means.\(^{16}\)
2. Local meeting\(^{17}\) and
3. Social report/audit.\(^{18}\)

The publication of the company's concern and involvement in the social areas help create awareness among the public of the company's posture toward social responsibility and build favourable image for it. It may be considered akin

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to the Institutional advertising that highlights the issues of concern to society and philosophy of company with regard to it. It can not be a primary and exclusive communication device. At best it can act as a remainder or persuader to keep public informed and seek their active support and co-operation in making company effort more meaningful.

The local meeting should be a regular annual feature and open to representatives of the consumers, the workers, the community and the shareholders and should be advertised well in advance in the local press. Its object should be to enable the directors and the management of the industry, to give a fair report on

(a) general position of business
(b) prospects of expansion and growth
(c) Employer-employee relations
(d) Consumer affairs
(e) Community improvement programs etc.

It can be very useful step, particularly in the early stages, when the enterprise embarks on social responsibility programs. What is however necessary is the avoidance of wild and irresponsible criticism, and the mischief-makers' propensities, so current in a developing country like India, to seize such an opportunity to create confusion and pandemonium. The meeting therefore, should be confined to the respectable and knowledgeable who can effectively grasp comment and suggest measures.
The last, but more useful approach to reporting is social audit. Though it is in embryonic stage at present, it seems to grow in scope, sophistication of measurement and frequency of use among business firms.

Bauer and Fenn, the major proponents of using the social audit for auditing internal decision making emphasise: 'the corporate social audit should permit firms to report their performance on issues of current social concern with the same regularity that they report financial performance'.

**SIGNIFICANCE OF SOCIAL AUDIT**

The significance of social audit can be estimated from the multiple purposes it serves in the organisation. The number of purposes, Sir Geoffery Vickers suggests to organisational communication are equally applicable to social audit.

"One purpose is to convey information about what is happening both outside and inside the organisation; a second purpose is to improving rules about, how various types of situations should be handled...., A third purpose is to form and render acceptable collective decisions... A fourth purpose is to move to action... A fifth purpose is to create, confirm or modify the attitudes of individuals.

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within the organisation itself, to each other to the work and so far as necessary to the outside world. 

Ralph Estes gives the following classification of the purposes of social audit.

A. Internal

1. Improve the decision-making process by:
   a. Assisting in the process of establishing goals, objectives and priorities in planning, the use of monetary, physical and human resources.
   b. Educating the motivating managers to think through the social consequences of all decisions.

2. Provide a basis for the continuing internal appraisal of social performance.

B. External

1. Ultimately to provide consistent bases and reasonable uniformity for companies to measure social performance and to report to the public.

2. Ultimately to provide a basis for independent attestation of corporate reports on social performance.

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21 Estes, Ralph, op.cit., p.16.
SCOPE AND METHODS

The new dimensions of social audit are not only concerned with the forms and structures of accounts but are also largely influenced by the changing ideology of social and economic responsibilities in the growing consciousness of the modern age, where new and perplexing problem is that some one is using and controlling somebody else's money.\(^\text{22}\) As such, the scope of social audit depends on many factors like public pressures, government directions, managers' responsiveness, methodology for identifying social concerns, sophistication of measures, the development of acceptable format etc. More significantly, the social audit at any point of time, reflects the state of the arts and willingness of enterprise to disclose information to user groups.

If the social audit is to include all activities, it embraces everything a corporation is doing or not doing. If the social audit is to verify the various costs entailed and the benefits produced, it becomes an impossible task and the information which might be produced would likely to be indigestible. On the other hand, if a social audit includes only a cataloguing of activities which top managers are interested in pursuing and/or those activities which

\(^{22}\) Mukharji, P.B., \textit{op.cit.}, p. 43.
might improve the public image of the company if publicised, the principal function of social audit will not be performed. 23

Because of the inchoate state of the social audit various approaches to its interpretation and implementation have been flourishing. For instance, they may be, superficially, hastily conducted, one-time 'surveys' of company practices bearing upon one or more social issues, internally generated social reports prepared for public relations purposes and often the poorly informed 'audits' of various alleged corporate abuses conducted by outsider groups utilising adverse publicity as primary techniques.

An elaborate classification 24 of the social audit may be as follows.

1. Nature

   (i) Qualitative - Simply narrative objective analysis with the help of qualitative social indicators.

   (ii) Quantitative - descriptive in terms of quantifiable social economic terms. Objective description in terms of goals and results in quantified terms.

23 Steiner, George A., op.cit., p.201.

2. Coverage: (i) Partial - analysis of one or more constituents.
   (ii) Total - Analysis of whole enterprise.

3. Audience: (i) Useful for Company managers.
   (ii) Useful for one or more constituents and management.
   (iii) Useful to all.

4. Source of data: (a) Micro-audit - if only company data is employed.
   (b) Micro-Macro audit - if company as well as the data at national level is employed.

5. Initiative: (i) Internal: Individually/ Jointly - the company takes initiative and organises audit either individually or jointly with external agencies.
   (ii) External: Individually/ Jointly - outside organisations like the social organisation, Academic Institution or Governmental organisation may conduct the audit either with or without the involvement of the company.

Chart VII-2 provides at - a - glance understanding of the various approaches to social audit in vogue:
<table>
<thead>
<tr>
<th>Level</th>
<th>Nature</th>
<th>Prepared by</th>
<th>Advantages</th>
<th>Disadvantages</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Qualitative checklists, Descriptive format, partial disclosure</td>
<td>Scovill Mfg. Co., 1972</td>
<td>Simplicity, Focuses attention</td>
<td>Misleading; No targets; Incomplete coverage</td>
<td>Actively used</td>
</tr>
<tr>
<td>2.</td>
<td>Listing inputs only, Quantified format, partial disclosure</td>
<td>International Business Machines, 1972</td>
<td>Availability of budget data</td>
<td>No results; Difficult to measure</td>
<td>Actively used</td>
</tr>
<tr>
<td>4.</td>
<td>Integrated Social/ Financial audits, complete disclosure</td>
<td>Linowe's Audit, Abt Audit 1974</td>
<td>Comprehensive, Objective, selective</td>
<td>Heavy expenditure for data collection</td>
<td>Limited use</td>
</tr>
</tbody>
</table>

'INVENTORY APPROACH/'CHECK-LIST' APPROACH involves the cataloguing of what the company is doing in each major social program or not doing in Social areas where there is social expectation that it should be active. For each identified area this approach calls for data and/or narrative description of what is or is not being done. The effort is only to explain activities but not to evaluate them in terms of 'impacts'.

As it involves calculation of expenditures made without any concern for the improvements effected, it is the simplest of all the methods. The major limitation of this method, no matter how comprehensive, detailed and elaborate it is, and no matter how many dimensions of it are expressed in some matrix - is that there is no logical way of determining whether or not there is any net social benefit resulting from the company's social performance. For a firm to start with, this can be a useful one. It serves a kind of 'consciousness raising' function for executives who employ it, thus tending to mobilize their commitment to exploring more sophisticated and precise measures. As one can make a long list of 'good' things the company has done, a short list of the 'bad' things, and make it look as if one has done more good than bad, it can be at best a public relations device and certainly is no great aid to management decisions in capital budgeting or other resource allocation.
A second one, 'INPUT ANALYSIS APPROACH which seeks to identify and measure the expenditures which have been made for social programs and/or describes in qualitative terms what has been done. The trouble is that expenditures measure only the inputs to social activities and not the outputs; there is no measure of efficiency or effectiveness. And the mere fact that company is spending a lot on social action program does not mean it is getting its money's worth and that the whole program is worthwhile. It is therefore, a basic step toward evaluation and provides a crude basis for budgeting; but offers no clues for optimising investment.

The third one, 'PERFORMANCE GOALS' APPROACH is concerned with setting up of goals in the diverse social responsibility areas for achievement by the company. It encourages management by objectives and makes evaluation easy as actual performance can be measured against the goals set. The limitation is the company cannot compare the social worth of different social projects as the goals are not established on the basis of a Socio-economic cost-benefit analysis.

This can be carried through valuation of human assets. The audit is concerned with valuations of the productive capabilities of company's human organisation, the valuation
of shareholder loyalty, banker or community goodwill, customer loyalty and so on.\textsuperscript{25}

The impact of Social programs can be measured by either opinion poll method or by surrogates. Opinions of individuals about how they perceive the impact of social program on themselves can be a useful measure. An example is Blum's poll made to determine the extent to which a company was satisfying the basic human needs of its employees.\textsuperscript{26}

The other way of measuring impact is through use of surrogates. A surrogate is a substitute which is believed to approximate the underlying phenomenon. Employee satisfaction can be measures through absenteeism, labour turnover, output, etc.

The 'COST-BENEFIT ESTIMATE' METHOD is variously referred to as social process audit,\textsuperscript{27} program management audit,\textsuperscript{28} and Input-output matrix approach.\textsuperscript{29} It is a

\begin{itemize}
\item \textsuperscript{26} Blum, Fred, H., 'Social Audit of the Enterprise', \textit{Harvard Business Review}, March-April 1958, pp.77-86.
\item \textsuperscript{27} Bauer, Raymond, A, and Fenn Jr., Dan H., \textit{loc.cit.}
\item \textsuperscript{28} Butcher, Bernard L., \textit{loc.cit.}
\item \textsuperscript{29} Elliot - Jones, M.F, 'Matrix Methods in Corporate Social Accounting - Some extensions of Input - Output Economics' Presented at Seminar on Corporate Social Accounts, Battelle Seattle Research Centre, November 10-11, 1972.
\end{itemize}
description and quantitative and nonquantitative analysis of a specific program activity, intended to provide management with systematically developed information for purposes of review of program effectiveness in achieving the company's stated goals. It deals not with the entire company and its overall social performance, but only with clearly identifiable and specific programs. It does not attempt to compare program performance in one area with program performance in another area, although in course of time a sufficient base for doing so might be built up within a given organisation.

This type of Social Audit has several advantages:

1. It minimises the problems of methodological difficulties and shortcomings that characteristically plague this new field of social measurement and evaluation.

2. It can be applied to any and all realms of organisational activity whether they are undertaken voluntarily or required by the government regulations, whether related positively or negatively modest in magnitude and expenditure, whether quantifiable or only partially so or not at all, and whether comprising an adjunct, 'Social' program or consisting of a 'main stream' business operation.
The obvious strengths of this method are of its limitations as well:

1. The difficulty in setting goals, is the major limitation. Various pressures that operate on business may force management to establish objectives based upon short-run, socially constructive, or self-serving considerations. If that has occurred then a social process audit, will run risk of perpetuating organisational practices, attitudes, and policies, which will be considered unwise and undesirable by some groups within the society.

2. By focusing upon explicit, discreet programmes and activities, the social process audit does not provide the organisation's management with a comprehensive view of the total range of social consequences that may result from company operations.

3. Because the standards developed are specific to a given social program or activities, there is no yardstick of social performance, no common denominator, comparable to that used in economic and financial performance to make inter program comparisons.

If companies are to continue to be brought before the bar of Social judgement - and particularly if social evaluation is to be based on social analysis rather than pure emotion and bias - then this absence of tools for comparison of inter-program effectiveness will have to be remedied. Such a dilemma cannot be resolved by reliance
upon the discreet, program-by-program analysis represented by the Social process audit. 30

The 'COMPREHENSIVE AUDIT' reflects the highest level of sophistication in measurement at which the social benefit/cost approach is integrated with financial accounts and financial statements. It allows to make direct tradeoffs between social and financial investment and social and financial returns and maximise both. It focuses attention on 'Consumers' of Social activities - society as a whole, a community, or groups and individuals etc. - with respect to either their broad needs or specific needs. Measurement may be in terms of values received or benefits related to costs incurred.

Most ambitious one is that of Abt. He lists in financial terms, in a sort of modified and combined balance sheet and income statement, social assets of a company, social commitments, obligations and equity, and social benefits and costs — to staff, to the community and to the general public and comes to a net social income to clients. This method would be prohibitively expensive for a company of even moderate size. 31

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30 Blake, Frederick & Myers, op. cit., p.20.
Linowes proposes a 'Socio-economic operating statement' which calculates in dollars, for a specific major program, the 'Social improvements' and 'detriments' that are involved. He winds up, like Abt, with an aggregate plus or minus for society. While simpler than Abt's, Linowes's method is still complex for practical applications.32

A Return-On-Resource (ROR) model of the social audit, enlarges the traditional concept of corporate accountability into a matrix describing various aspects of corporate performance for various constituent groups. It provides a structured system incorporating explicit social costs and benefits, and helps to resolve the many problematic questions concerning corporate activities in the social sphere which have here to forth been treated as externalities, excluded from the financial and economic system.33

Making Social Auditing Effective:

The development of social audit is by no means an easy task. As stated earlier social audit is not a mere description of activities of an enterprise in the choicest areas of social action but, "a commitment to systematic assessment of and reporting on some meaningful, definable

32 Ibid., p.205.
domain of the company's activities that have social impact. Among the foremost difficulties cited are "the problem of developing acceptable measurements of social factors, difficulty in obtaining cost ratios of some sort, a lack of consensus regarding activities to evaluate and the absence of agreed format to organise the information into useful technique for corporate decision".

**Difficulties:**

The various difficulties, an enterprise may face in course of the development of a social audit, are outlined here.

1. **Conflict of Interests:**

   A firm is a hub of a complex social system involving a variety of constituencies all of which are essential to its operations. It has to reconcile diverse interests of the various social groups to form a workable coalition engaged in creating value for distribution, among members of the coalition.

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It is opined, therefore, that although measurement problems are difficult, it is organisational politics rather than technical difficulties that inhibit the use of social audits. This view highlights the fact that measurement or review carries emotional and other overtones that in turn affect the behaviour that is being measured.  

2. **Divergent Objectives:**

Concerning with the objectives of the Social audit there are differing view points. While some consider that it is to be made for the use of executives, others argue that it must be made to meet the information needs of the publics as well. As corporate controllers are aware of, the composition and structure of the two sets of information requirements are far from identical and can be standardised within a single system, only with some gross adjustments.

3. **Amorphous Objectives:**

Effective social policy and performance require continual adaptation to changing social needs and opportunities for responses. This is the alleged 

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'Moving target' nature of social requirements. It is argued that, what is social today being economic tomorrow, there is a tendency to account for such activities in economic terms and a tendency not to worry too much about separating socially related actions from purely economic ones, since in all probability they will either go away or blend into the economic mainstream of the firm. It is why many feel against the need for social accounting system to augment the regular economic accounting system.

4. Management Apathy:

Many are of the strong opinion that social accounting cannot obtain the precision of financial accounting. Daniel Gray of Arthur D. Little Inc., emphatically states: 'traditional corporate accounting owes its rigor to what it excludes. To try to stretch it to measure all social costs and benefits is to violate its very foundation'. Yet another point, that accounts for management apathy for developing social audit is the alleged small and ancillary

level of expenditure. Neil C. Churchill argues that controllers or managers do not perceive the value of having detailed information on such expenditures because the potential savings from more rational allocations do not seem to warrant examining them in detail.40

5. Time, Expense and Skills:

The preparation of social audit is a time consuming and expensive process. It takes an interdisciplinary team to accomplish a social audit, at least a period of four months. It requires the deployment of the combined skills of an economist, an accountant, engineer, social scientist, besides the coordinating skills of a generalist corporate manager.41

Because of the several practical difficulties in making a social audit, many enterprises do not consider it a worthwhile exercise. However, the difficulties are not insurmountable. If proper steps are taken, the exercise will not only be constructive but also be emulative to other enterprises. Certain basic principles which can be of help to enterprises intending to develop social audit, are summarised below.

40 Churchill, Neil C., loc. cit.
41 Abt, Clark C., op. cit., p.113.
1. Principle of Assurance of Objectives:

The purpose of Social audit is to systematise information relevant for making a meaningful evaluation of enterprise performance, from various stakeholders' point of view. It should not become an avenue to attach any particular function of management, and fears that this might happen, should be anticipated and allayed by making it clear that the social audit is a management information system designed primarily to improve the efficiency of investment decisions at all levels, in the organisation. In the absence of such a clear statement of objectives, the social audit will become the breeding ground for conflicts and misunderstandings.

2. Principle of Employee Participation:

Participation of managers at all levels is a key element in making any programme work. Company wide participation in the decision to measure social performances and in the definition of objectives and gains to be achieved would certainly facilitate the process, making an effective social audit greatly. Probably, it is the most effective way of dealing with the attitudinal and behavioural problems on the part of middle management.
3. **Principle of Social Area Selection:**

For effectiveness in their social programmes, companies need identify and select high leverage areas of social action. High leverage areas of social action are those over which company has a high degree of control, those which hold high promises of being socially productive and those activities that have a high degree of potential for replication. Choices as such enthuse the operating managers to participate and contribute to the success of programme.

4. **Principle of Effective Measures:**

The purpose of measurements is to help the user groups, appreciate the company effort, evaluate and suggest improvements. As such, measures should be developed in such a way that they serve the intended purpose. To ensure that, it is to be checked, whether the measures so developed possess the characteristics like: Simplicity, Objectivity, Reliability, Acceptability and Feasibility.

5. **Principle of Research Utilisation:**

The tendency to 'reinvent the wheel' in developing measurements, without regard to what others have already done, will lead to unnecessary delay, dissatisfaction, and waste of resources.
Just as professionally competent measurements of financial results use the latest accounting methods micro economics and statistical sampling, professionally competent measurements of social performance should make use of the relevant methods and findings from the social sciences such as survey research, group psychology, and evaluation of educational and health programmes impact.

6. **Principle of Standards:**

   An issue of paramount importance is setting up of company wide standards for uniformity of practices and comparability of results. Standardisation of measures of social performance is necessary to compare on a fair basis the performance of one division with that of other divisions and with its own previous performance. In the absence of common standards, inconsistent interdivisional standards will be applied, which will destroy incentives to good performance.

7. **Principles of Appropriate Method:**

   Methods of social audit are many and every company has to make its own choice. Depending upon the amounts committed to social programmes undertaken, availability of financial resources and
state of the arts in developing social audit, a suitable method is to be chosen. If better measures are not available, there is no way to go but to prepare description scenarios of what constitute acceptable performance.

8. **Principle of Leadership:**

The more effective the leadership is, the greater will be the contribution of subordinates to the predetermined goals. The leader of the social audit team, should therefore, be a man known for integrity and having high status, preferably from within the company. Also, it is not advisable to select the head of public relations as team leader. It will lead to serious misunderstandings among public. If you buy public relations, you get only public relations. Social accounting and auditing are not public relations. It is preferable to choose either Chief financial officer or a senior manager, with vast administrative experience.

9. **Principle of Training Managers:**

Except in those businesses that make extensive use of social science for market and opinion research for detailed behavioural and econometric
studies, operating division managers are unlikely to have staffs who are well trained in both the methods and the findings of contemporary social science. The problem can be solved by providing brief training to managers to acquaint them with the basic tools of social research necessary for developing measurements.

10. Principle of Double Evaluation:

Internal social audits, voluntarily undertaken by management, tend to be optimistic, quick, efficient and comprehensive. However, the reliability of these can also be questioned on the basis of self-serving bias. The external audits are supposedly critical and unfavourable to company as they tend to have negative bias. Thus, the most comprehensive and precise social audit requires both internal and external auditing - internal for comprehensiveness and external for reduction of bias. Much the same double approach has been found effective in financial auditing and cost effectiveness evaluations.

11. Principle of Balanced Reporting:

The issue of disclosure of audit findings raises however, the very delicate and controversial
question of how far the social audits and accounts should be open to public and of what exactly are spheres and areas in which the public should reasonably taken into confidence. The social audit has its utility as well as its dangers. Its utility lies in accepting the social responsibilities of modern business whereby members share at least some confidence with the public which business serves. Its dangers are that a wholesale disclosure may lead to irresponsible criticism and trade handicaps of various kinds. The enterprise has to take, therefore, the needs of various user groups into account and develop a need-based report that may satisfy all groups.

12. Principle of Continuing Development:

The more an enterprise is committed to social responsibility, the more it requires its managers to develop the methods and measures of social auditing. The social audit should be conducted as consistently as possible, from year to year. As new, more comprehensive and sensitive measures of social impact are added—and they should be added as they become available—the required precision and sophistication can be achieved.
CONCLUSION

In the new setting of society, companies which adhere to the traditional views like profit-maximisation, bureaucratic-mechanistic and closed systems, private entity, individual good is public good, and laissez-faire, cannot succeed in their endeavours. They have to develop a style of operating based on the views like quality of life, organic-innovistic-humanistic-open systems, public good is individual good and government direction. Business organisations have to shift their loyalty from the owners or stockholders to society or stakeholders and attempt to discover new methods, techniques and tools to make their reporting practices more rational, realistic and meaningful. It implies that social reporting is to be developed into a science and art of disclosing in qualitative as well as quantitative terms, both social costs and social benefits, of actions as well as non-actions of the company.

Though the development of comprehensive audits is mostly desirable, due to the difficulties in measurement, they are dubbed as abstract and complicated. Further the high costs involved discourage many firms from attempting to make such type of audits. Among the described methods,
social process audit seems to have gained more popularity with many companies in U.S.A. as its specific focus is accounting of cost/benefits of social programmes only.