CHAPTER - X

SOCIAL AUDITING : MANAGEMENT ATTITUDES

The principal aim of this chapter is to examine the current corporate practices of communicating to society the social concern and performance, and also present an evaluation of the prevailing attitudes of enterprise managers at the top and middle levels towards social auditing.

SOCIAL REPORTING IN INDIA:

"During the last decade, corporate external communication practices have taken a significant turn. The acceptance of social responsibility by companies in response to the increasing pressures from different quarters of society has raised the expectations of the public and they are constantly watching the business to see how they discharge it. Many companies have resorted to institutional or corporate image-building advertising to convince the society of their commitment to public responsibility but the demand of the society is that the annual reports should be designed in such a way that they furnish true and full information to the different stakeholders.

The demand constituted a serious threat to those firms feigning social responsibility and a difficult challenge to socially responsible firms for they have to
find immediate solutions to various problems in implementing and evaluating social responsibility tasks and performances and designing an altogether different type of report to meet the information requirements of different user groups. The former type of companies which lacked the will stiffened their attitude and started questioning the very logic of social responsibility while the socially committed companies have sought for more time to learn and implement the art of social reporting. Consequently, social reporting in India has not made a start, while it has made rapid strides in countries like the US, the UK, France and Germany.¹

The different ways in which the corporations are publicising their commitment to social objectives and involvement in social areas of effort are:

1. Advertisements
2. Chairman's speeches and

Advertisements:

Among the listed methods, public service advertising as a type of institutional advertising occupies a significant place. It has become the principal means through which

the large enterprises have been getting the public attention and appreciation. 2

The following introductory paragraph in the booklet titled, 'Children in Indian Mythology' of Mafatlal group of mills substantiates this:

"For many years, Mafatlal Industries Limited and its associate companies have proudly been presenting a series of renowned institutional campaigns which seek to express the inspiration behind their operating philosophies. Over these years, these series of advertisements were based on the rich pageant of the legend and lore of India, covering varied interesting facets of fact and folklore. Among these were Women of India, Saints of India, the Jyotirlingas and the Vahanas ... The series presented for year 1979 delved into the glorious heritage of the past and drew out stories of children which enshrined the time-honoured values of devotion, courage, purity and valour. Traditional tales learnt in our childhood—lessons that instill ideals which inspire our daily lives in so many ways. Values which have moulded and shaped the destinies of the Mafatlal Industries Limited and its associate companies together with millions of others in our country who have treasured these lessons through the growing years". 3

Chairmen's Speeches:

Chairmen of some large organisations have made it a point to include an explanation to the shareholders the social concerns of the company and the brief account of activities undertaken during a year. These reports when published in newspapers and business magazines become important vehicles for disseminating information about the social consciousness and responsibility of the companies.

"The study of a sample of 50 chairman's reports published in Financial Express during the year 1979 reveals that the chairman of only 15 companies had made a reference to their social responsibilities to the stakeholder groups. The percentage of companies that have reported social concern for various national targets is as follows: employees - 40 per cent, consumers - 40 per cent, rural development - 40 per cent, employment generation and small-scale industry - 13 per cent and pollution - 6.6 per cent. The Chairman of Dunlop India regarded the customer the most important person in their business and pledged to serve him well. In his words: "The part that Dunlop can play is to improve its efficiency, continuously upgrade product performance to provide the best value for money and to offer complete service to the satisfaction of our customers". He listed the R & D activities the company
undertook, to benefit the urban and rural consumers. Very much in the same fashion, the Chairman of J.K. Industries Ltd., chose to express his concern for consumer interests and briefly outlined the technical improvements the company had introduced to improve the product. The only one to have expressed concern for environment was the Chairman of South India Viscose Limited. The Chairman of Hindusthan Lever blamed his company a "Company of people" and gave a detailed description of the company's performance in monetary terms as well, under the respective heads: Investors, Employees, The Trade Suppliers and Consumers.

In 1978, Mr. A.N. Haskar, Chairman of ITC, attempted in his speech a Nation-oriented social audit, under three broad captions: Nation and the Economy, Nation and People and Nation and Society. He elaborately explained the efforts of the company in improving the lot of the employees and society at large. In 1979, he took pains to show how the diversification of ITC into Tourism-cum-Hotel Industry would help serve the philosophy of the company", to subordinate and enmesh the objectives of the company with those of the nation in the conviction that the enterprise will progress to the extent that our society and country prosper".

4 Krishnamacharyulu, C.S.G. op. cit., p.5.
Social Audit:

Today, social audit has come to be regarded as the appropriate tool for identifying social areas of effort, designing the social strategies and evaluating the social performance of company.

A Modest beginning:

A.N. Haksar, Chairman, ITC Ltd., in his speech delivered at the 67th Annual General Meeting of the company on 31 August, 1978 did a social audit of ITC fulfilling social responsibilities. The following introductory lines from his speech help appreciate the spirit with which it was made. "Some years ago the ITC Corporate Philosophy was expressed in the following words: 'We are concerned with the well being of the organisation in its totality as we believe that industry is an organ of society specifically charged with the responsibility of organised economic advance through making resources productive. This expresses the basic belief that economic progress can be made into a powerful driving force for human betterment and justice.

In confirmation of the commitment to such performance by private enterprise, which is an inherent element of a democratic structure, I would like, this year to do a SOCIAL AUDIT OF ITC FULFILLING SOCIAL RESPONSIBILITIES in qualitative values substantiated in numerate terms within
the three fundamental priorities of: FIRSTLY: Nation and the Economy, SECONDLY: Nation and People and THIRDLY: Nation and Society.

The detailed description of the company performance was made in the following classified manner:

Nation Orientation and the Economy
* Inherent motivation to Nation-oriented ethos
* The National International - No conflict of interest
* Nation orientation and largeness
* Nation orientation - Growth and Investment

Nation and People
* The Company - Employee relations
* The Company - Meritocracy - Fair reward
* The Company - Enriching the Human Resource - Quality of Life

Nation and Society
* The Company - Social Responsibilities - Creating awareness
* The Company and Sports
* The Company and Culture
* The Company and Rural Weaker Sections
* The Company and Ecology
* The Company and Integration
Making an appeal to the government for adopting a liberalised policy toward socially responsible organisations he concluded: "In conclusion, I wish to reaffirm that in ITC there is continuing aspiration to meet ever more exacting and broadening standards of subserving the Nation. I submit that, in the interest of the economy, such endeavour needs special encouragement to corporate entities like ITC which can stand the scrutiny of a Social Audit and where managers derive satisfaction not merely in terms of returns to themselves but in doing their best to create Corporate Excellence. Encouragement could be given by Government to such Organisations by loosening the constraints that fetter the operations and growth of large industrial houses for, such Companies may truly be described as "The Professional National Sector" making a meaningful contribution in the furtherance of Public Good".

The Impetus:

When the Expert Committee for review of the Companies Act and Monopolies and Restrictive Trade Practices Act under the Chairmanship of Mr. Justice Sachar in 1977, posed over 200 questions for eliciting the views on different aspects relating to the basic structure of legislation, the patterns of management, the protection of interests of shareholders, creditors and workers, social audit and reporting etc., a serious debate over social report and social audit has started in India.
The concept of social objectives has been elaborated in one of the questions of the above questionnaire indicating further disclosure requirements in this regard. The suggested additional disclosures include various important aspects. For example, the extent to which a company has been able to—

i) Keep the environment clean and free from pollution;

ii) Preserve the ecological balance in the matter of wildlife preservation;

iii) Prevent the ill-effects of any unplanned urbanisations;

iv) Spread education and literacy;

v) Provide medical facilities in rural areas;

vi) Promote family welfare activities;

vii) Improve the cultural level of the community;

viii) Provide relief to the poor etc., and

ix) Work towards rural upliftment including its adoption of any villages for social welfare programmes.

The Committee has asked another question that relates to the attestation of the contents of the Social Report by independent professional people.  

Rising to the occasion, the professional institutions have held seminars to discuss the nature, significance, form and methodology of social audit and evolve guidelines. The Sixth National Convention of Company Secretaries held on February 16th and 17th at Goa in 1978 examined the conceptual controversies and design problems of social report and social audit. Recently, The Institute of Cost and Works Accountants of India has held its XXIII National Convention of Cost and Management Accountants in February 1981 to find the ways to achieve social audit through cost audit. In one of the Editorials of The Chartered Accountant, the Journal of The Institute of Chartered Accountants of India, there is a call for chartered accountants to be prepared to accept the challenge of social auditing: "This new concept, in whatever form it ultimately may emerge after meaningful deliberations, will no doubt be a real challenge to our profession, in the light of which we will have to redesign our pattern of education and training, remodel our approach to the auditing techniques and rededicate ourselves for the achievement of the social goals".


A True Social Audit:

"The credit for taking lead in developing what may be called a true social audit goes to the Tata Iron and Steel Company. J.R.D.Tata, its Chairman announced in 1979:

"My colleagues and I now feel that time has come when our belief that the Company has indeed lived up to its social and moral obligations should be independently confirmed. With the objective in view, we have recently decided that some time before the end of the year a panel of four eminent and respected persons totally unconnected with the company audit activities and enjoying public confidence should undertake such a social audit". Being true to his word he has brought out the social audit in 1980 and TISCO has become the pioneer of the social audit movement in India.

The report submitted by Social Audit Committee is divided into eleven chapters as given below:

Chapter I: Introduction and Perspective,
Chapter II: The City,
Chapter III: The Works and Mines,
Chapter IV: Pollution,
Chapter V: Employer-Employee Relations,
Chapter VI: Consumers,
Chapter VII: Shareholders,
Chapter VIII: Community Development and Social Welfare Programme,
Chapter IX: Rural Development Programme,
Chapter X: Obligations to Society, and
Chapter XI: Conclusion.
The following extracts from the Social Audit Committee Report provide the necessary insights for assessing the worth of the Social Audit.

"Mention the name Social Audit in the Board Rooms of some companies and you run the risk of being carried out on a stretcher. Why should these two words be such an effective trigger of the corporate adrenalin?" That was John Elkington reviewing 'Business through the Looking Glass'.

2. The Tata Iron & Steel Co. Ltd., (TISCO) is not one of these companies, for it took the initiative to invite this social audit. It is the first Social Audit ever undertaken by any company, public or private, in India.

3. By a resolution passed on 22nd May 1979, the Board of Directors of TISCO approved the proposal to appoint a committee to go into the question whether and to what extent the Company has fulfilled its obligations under the broad head of Social and moral responsibilities under Article 3A of its Articles of Association. The Committee, subsequently appointed in October, 1979, consisted of three persons as follows:

Mr Justice S.P. Kotval - Chairman

Prof Rajni Kothari

Prof P.C. Mavalankar
Article 3A was added comparatively recently to the Articles of Association of the Company by a special resolution passed on 28th January 1970. While it speaks of a number of subjects, the Committee was entrusted with seeing whether the Company had fulfilled a limited part of its provisions, as set forth in the following terms of reference:

"To examine and report whether, and the extent to which the company has fulfilled the objectives contained in Clause 3A of its Articles of Association regarding its social and moral responsibilities to the consumers, employees, shareholders, society and the local community."

The reference thus speaks of social and moral responsibilities of the Company in five spheres, viz., (i) to the consumers, (ii) to the employees, (iii) to the shareholders, (iv) to society, and (v) to the local community. It was not as if the Company was about to undertake these tasks for the first time pursuant to the resolution passed. Our examination of records shows that the Article merely translates into a legal obligation what the Company had undertaken to do ever since its inception in 1907. Long before he passed away, its illustrious founder, Jamsetji Tata, had laid down as its policy during his life-time and instructed his heirs and successors to constantly bear it in mind and implement it
in letter and spirit. This article thus reflects the dream of a seer.

153. First, we have found the following inadequacies which may, in time, be attended to:

a) At the time of allocation of funds towards the various items of social welfare, the allocating authority should call for greater details of each head of demand and determine the estimated benefits therefrom. This should be stated in the budget so as to be useful when the next yearly accounting and budgeting comes round. Merely stating heads of grant is not enough.

b) When the next annual budget is prepared, the previous years' performance in comparison to the expectations and details of expenditure should be closely scrutinized in order to enable the allocating authority to determine -

(i) whether the aid has reached the persons for whom it was meant, and
(ii) whether the allocations among different items require any change.

c) A larger appropriation towards education of children, particularly girls and Adivasis, is of vital importance. Since a programme of rural uplift has now been undertaken, such education should be carried to the village folk within the area set by the Company for its effort.

d) In allocating funds for social welfare, care should be taken to (i) foster self-reliance in
the community, and (ii) give priority to the more critical felt needs of the community through a process of consultation.

e) The problem of pollution from the chimneys has assumed serious proportions and requires to be controlled early and, if possible, eliminated. Since the cost of pollution control is likely to be very heavy, even for a Company like Tisco, the effort may be spread over a number of years. In the meanwhile, units or locations where the ill-effects of pollution are concentrated shall for immediate measures of alleviation.

f) The dividends paid during the past few years appear to be somewhat meagre and since the Company is constrained by executive instructions to limit them, the Company should make the necessary application to Government to be allowed to increase it. (as we concluded this report, we were happy to learn that such an application has been made to Government.)

Subject to what we have said above, we are satisfied that the social performance of this Company is of a high order and, in its magnitude, is perhaps unequalled in India. We are satisfied that Company has amply fulfilled the objectives contained in Clause 3A of its Articles of Association regarding its social and moral responsibilities to the consumers, employees, shareholders, the local community and society.
155. The credit for this outstanding social performance of the Company goes to a number of persons - past and present - but in welding an effective team together and inspiring it with a sense of larger purpose, the role of J.R.D. Tata is so outstanding that it deserves special mention. He has presided over the destinies of the Company for over 40 years now and has shown unceasing care and anxiety for its employees and all those associated with it. He is usually one of the first to assist in settling right inequalities or injustice in whatever field they appear. Through all this, he has helped build up the social conscience of the Tata Iron and Steel Company.

156. Under the leadership of J.R.D. Tata, the Company has not merely fulfilled the dream of its founder for the company which he planned and for his country, but has gone far beyond it. The Company spends in all about Rs. 10 crores per year upon its social welfare programmes, including the deficit on the Town. It has encompassed, within the ambit of its activities and financial aid, not merely the worker and his dependants but the community among which they live and indeed society in general in far-flung corners of India whenever a calamity or a disaster has struck. At the same time, it has taken care to see that the consumer who buys its goods gets value for his money and, within the limitations laid down by Government and other compulsions within
which it operates, the shareholder, whose money it uses, gets an adequate return.

**Evaluation of Management Attitudes:**

As attitudes are major determinants of the value of any system and its progress, an attempt is made to ascertain executive opinion with reference to the purposes and methods of social auditing and the obstacles on the way of developing it.

Among the six methods suggested for social auditing, Table X.1 indicates that performance goals method is strongly favoured by both the executive groups. This is a pointer to the fact that the philosophy of MBO has attracted the management groups and that they are willing to have a crystal clear approach in the implementation of social strategies.

As hypothesised, managers have not preferred the check list or Input analysis method, which are supposed to be more convenient due to their simplicity and economy. Instead, the managers are more favourable to the 'cost-benefit' which requires the computation of input costs and monetisation of benefits accrued to the constituent groups. This is a fair indication of managers' willingness to have a better method in the place of the unsatisfactory, rudimentary
types. Again, it is to be noted that they have not accorded high preference to the local meeting and comprehensive social and financial statements. The local meeting, which is the suggestion of the Study group of Calcutta Seminar, might not be appealing to the management groups. The Study group itself has expressed an apprehension that it may be inappropriate in India since, the chances of it being misused by irresponsible critics are high. The critics may use it as a forum to dishearten the company executives regardless of the merits of their effort. This disadvantage makes the method impracticable.

The development of a comprehensive financial and social statements requires high degree of sophistication in accounting tools and methods and it is very expensive. The adoption of this method is not advocated even by academicians who generally tend to favour 'perfects' irrespective of the implications involved in practice. Against this, the choice of performance goals method, suggests that, the thinking of Indian managers in this regard is sincere, sensible and realistic. Their preference is to have a moderately sophisticated, purposeful, easy-to-communicate and implementable method. The perfect correlation in the ranking of the methods by both management groups enhances the validity of these conclusions.
### TABLE - X.1

Managers' Preference for Social Audit Methods

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Method</th>
<th>Top (N=210)</th>
<th>Middle (N=270)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean Score</td>
<td>Rank</td>
<td>Mean Score</td>
</tr>
<tr>
<td>1.</td>
<td>Check list method</td>
<td>16.06</td>
<td>IV</td>
</tr>
<tr>
<td>2.</td>
<td>Input analysis method</td>
<td>17.24</td>
<td>III</td>
</tr>
<tr>
<td>3.</td>
<td>Performance goals method</td>
<td>23.65</td>
<td>I</td>
</tr>
<tr>
<td>4.</td>
<td>Cost benefit method</td>
<td>19.31</td>
<td>II</td>
</tr>
<tr>
<td>5.</td>
<td>Comprehensive social and Financial Statements</td>
<td>12.94</td>
<td>VI</td>
</tr>
<tr>
<td>6.</td>
<td>Local meeting</td>
<td>14.41</td>
<td>V</td>
</tr>
</tbody>
</table>

The purposes the social audit serves can be many. Over the issue, as to what purposes the social audit serves, there is difference in the perceptions of both the groups, which is however, not much significant. The analysis of the first five purposes of the social audit, according to the rank assigned by both the groups as indicated in Table -X.2, it is obvious that the social audit is conceived as a tool for identifying, designing and evaluating the social programmes of the company. While, middle management is struck most with the idea that it can be of great help in examining what the company is actually doing in selected areas, the view that it can be made an effective instrument to promote communications with the public has greatest appeal to top management.
Table X.2

Rank Order of Purposes of Audit

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Purpose</th>
<th>Top (N = 214)</th>
<th>Middle (N = 262)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Mean Score</td>
<td>Rank</td>
</tr>
<tr>
<td>1.</td>
<td>To inform Public of what company is doing</td>
<td>12.13</td>
<td>I</td>
</tr>
<tr>
<td>2.</td>
<td>To appraise or evaluate performance in selected areas</td>
<td>12.10</td>
<td>II</td>
</tr>
<tr>
<td>3.</td>
<td>To identify those social programmes which the company feels it ought to be pursuing</td>
<td>11.37</td>
<td>III</td>
</tr>
<tr>
<td>4.</td>
<td>To examine what the company is actually doing in selected areas</td>
<td>11.21</td>
<td>IV</td>
</tr>
<tr>
<td>5.</td>
<td>To inject into the general thinking of managers Social point of view</td>
<td>9.81</td>
<td>V</td>
</tr>
<tr>
<td>6.</td>
<td>To ensure that specific decision making processes incorporate a social point of view</td>
<td>9.76</td>
<td>VI</td>
</tr>
<tr>
<td>7.</td>
<td>To identify those social pressures which the company feels pressured to undertake</td>
<td>9.38</td>
<td>VII</td>
</tr>
<tr>
<td>8.</td>
<td>To meet public demands for corporate accountability in social area</td>
<td>7.92</td>
<td>VIII</td>
</tr>
<tr>
<td>9.</td>
<td>To determine areas where our company is vulnerable to attack</td>
<td>7.57</td>
<td>IX</td>
</tr>
<tr>
<td>10.</td>
<td>To offset irresponsible audits made by outside self-appointed groups</td>
<td>6.54</td>
<td>X</td>
</tr>
<tr>
<td>11.</td>
<td>To increase profits</td>
<td>5.31</td>
<td>XI</td>
</tr>
</tbody>
</table>
This view finds elaboration in the observation of J.R.D. Tata. "One way of convincing public opinion of their bona-fides — not only, in regard to the pricing of their products but also to their performance, in other respects, would be for larger companies prominently in the public eye, to submit themselves, from time to time to a 'Social audit' by independent persons enjoying the respect and confidence of the public." 8

The outright rejection of the idea that it is for increasing profits testifies the objective outlook of both the groups. Profit is not the aim of social audit though it may be a consequence of it.

Among the obstacles to social audit, the inability to develop measures of performance which everyone will accept, is of paramount significance to both management groups as specified in Table -X.3. Executives in foreign countries have experienced the same difficulty in making the social audit, and the development of social accounting methods have made a steady progress.

'Absence of legal requirements' is cited as the second obstacle by top management, while 'inability to make

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### Table No. 3

**Perceived Obstacles to Implementation of Social Audit**

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Obstacles</th>
<th>Top (N = 210)</th>
<th>Middle (N = 270)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Mean Score</td>
<td>Rank</td>
</tr>
<tr>
<td>1.</td>
<td>Inability to develop consensus on ways to organise information</td>
<td>13.85</td>
<td>V</td>
</tr>
<tr>
<td>2.</td>
<td>Inability to develop consensus as to what activities shall be covered</td>
<td>14.50</td>
<td>III</td>
</tr>
<tr>
<td>3.</td>
<td>Inability to develop measures of performance which every one will accept</td>
<td>16.91</td>
<td>I</td>
</tr>
<tr>
<td>4.</td>
<td>Inability to make creditable cost-benefit analysis to guide company actions</td>
<td>13.86</td>
<td>IV</td>
</tr>
<tr>
<td>5.</td>
<td>Lack of pressure from public for such disclosure</td>
<td>13.58</td>
<td>VI</td>
</tr>
<tr>
<td>6.</td>
<td>Absence of legal requirements to make such audit</td>
<td>14.98</td>
<td>II</td>
</tr>
<tr>
<td>7.</td>
<td>High expenditure necessary for developing such audits</td>
<td>13.30</td>
<td>VII</td>
</tr>
</tbody>
</table>
cost-benefit analysis' is pointed out by middle management. The legal obligation aspect looms large in the mind of top management while procedural details attract the attention of middle management. The above finding corroborates this viewpoint and explains the difference in the perceptions of the management groups.

The inability to develop consensus on activities is the next hurdle according to, both groups. The institutionalisation of social concerns and prolonged experiments in the social arena, alone will minimise the perceptual differences and reduce operational difficulties. Even in advanced countries like USA the implementation problems are still to be resolved. As such, it is not uncommon if Indian managers find difficulty in obtaining a consensus on activity areas.

Perhaps, the choice of executives to have a performance goals method, may be the reason for their considering, 'High expenditure necessary for developing such audits' as a less significant hurdle.

The assignment of low rank to 'lack of pressure from public for such disclosure' reconfirms the earlier conclusion that managers are socially conscious, and would like to respond very much voluntarily before the public becomes restive.
Conclusion:

Present day Indian industry and management are in a period of transition. Realisation of their social responsibilities and performance of social activities have given them a new status and image. However, immense damage is being caused to their image during the last three decades through depredations, misdeeds, and conspicuous expenditure of few individuals heading large enterprises, who in their pursuit of wealth, profit and self aggrandisement have only disregarded the public interest. As such managers who believe in honest and socially conscious business and industry should take every opportunity to demonstrate their bonafides.

To the socially responsible managers, social audit has come as an effective tool to establish credentials of their business performances. The findings of the study suggest that managers appreciate an objective approach which facilitates economic and efficient formulation, implementation and evaluation of social responsibility strategies. Therefore, it will not be wrong to presume that it will become a common practice in due course through the best efforts of the leading, much enlightened men like J.R.D. Tata.