



Social audit in India: Yet to take off

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Abstract

Social audit as a term was used far back in 1950s. The term social audit means different to different people. To some it means revealing a company's social performance in front of all, for some it is an internal assessment of how well a company has discharged its social obligations and to some others it is a systematic and comprehensive evaluation of an organization's social performance as distinguished from its economic performance. Social audit is a systematic study and evaluation of an organization's social performance. It is concerned with the possible influence on the social quality of life instead of the economic quality of life. Social audit produces a report on the social performance of a business unit. Social Auditing can be used as a tool to provide critical inputs and to correctly assess the impact of government activities on the social well-being of the citizens, assess the social costs and measure the social benefits as an outcome of implementation of any programme. The performance of government departments is monitored through various mechanisms, in different states in India. However, these practices do not capture adequately the broader social, community and environmental benefits.

Tata Iron and Steel Company (TISCO), Jamshedpur, implemented Social Audit in 1979 and is the first company in India to do so. Social Audit gained significance after the 73rd Amendment of the Constitution relating to Panchayat Raj institutions. The Ninth Five Year Plan (1997-2002) emphasized on Social Audit as a tool for effective functioning of the Panchayat Raj institutions and for achieving the goal of decentralisation in India. In Kerala, the state government has taken a decision to introduce Social Audit for local bodies. Social audit is coming up as a tool to fight against corruption, giving hope to corruption fighters in India. It is emerging to plug the leaks in public expenditure, a grievance-redressing mechanism that gives the poor an opportunity to seek justice.

Keywords: Corruption, panchayat raj institutions, public expenditure, social audit, social responsibility

Introduction

The rationale of the concept of social responsibility is that industry can no longer be regarded as a private arrangement for enriching shareholders. It has become a joint enterprise in which workers, management, consumers, the locality, Government and trade union officials all play a part. If the system which we know by the name private enterprise is to continue, some way must be found to embrace many interests which go to make up industry in a common purpose. It is argued that a company has a number of social responsibilities to the employees, shareholders, consumers and the community.

Social responsibility of business is advocated on the ground that the resources it makes use of are not limited to those of the proprietors and the impact of their operations is felt also by many a people who are in no way connected with the enterprises. The shareholders, the suppliers of resources, the consumers, the local community and society at large are affected by the way an enterprise functions. Hence, a business enterprise has to be socially very responsive so that a social balance may be struck between the opposing interests of these groups. Further, companies which have huge resources at their disposal have a moral responsibility to care for the society. Besides, discharge of social responsibilities will be in the company's own interest, because it will help build up good rapport with the society and Government and improve employee morale and industrial relations.

However, there are also arguments against the social involvement of business. It will affect the financial health of companies, it may lead to attempt to dominate the community's affairs, the costs of social involvement may be

passed on to the consumers by price increase, for many companies it is a tax saving gimmick, so goes the arguments.

One important issue related to social responsibility of business is how to evaluate the social performance and here the term social audit appears. Bauer and Fenn Jr. define social audit as a commitment to systematic assessment of and activities on some meaningful, definable domain of the company's activities that have social impact. According to Ahmed Belkaoui, social audit much like the financial audit is an identification and examination of the activities of the firm in order to assess, evaluate, measure and report their impact on the immediate social environment. In other words, social audit involves

- Identification of the firm's activities having potential social impact,
- Assessment and evaluation of the social costs and social benefits of such activities;
- Measurement of the social costs and benefits; and
- Reporting, that is presenting in a proper format and manner, the social performance of the firm

Dr. Clark C. Abt, in his book *Audit for Management*, suggests that a social Audit should, as far as possible, be approximated to an ordinary commercial audit; that this should be based on a social balance sheet with a "credit" side and "debit" side. He calls them "inputs" and "outputs" or "costs" and "benefits" so far as the social balance sheet is concerned. After suggesting that every "input" and "output" must be measured in monetary terms, he points out that the basic purpose of a business corporation is to maximize the financial return, earned on its financial investment plus the

amount of social return on its social investment. To make rational investment decisions in social areas, it is necessary to know the social costs and if we are to assess them by the same measures as of financial investment, this must be expressed in dollar terms. He further asserts that, sooner or later, the social balance sheet must become a mandatory part of the normal commercial balance sheet of the company.

Objectives and Benefits of Social Audit

1. The basic objective of social audit is to evaluate the social dimensions of the performance of the company.
2. Another principal objective which follows the objective mentioned above is to take measures to improve the social performance of the company on the basis of the feedback provided by the social audit.
3. Social audit increases the public visibility of the organisation.
4. If the social audit reveals a socially commendable performance of the company, it will help boost the public image of the company.

Methods of Social Audit

Some of the important methods of social audit developed by different people or organisations are given below.

1. **Social Process Audit:** The aim of the social process audit, also known as Programme management audit, is to develop an internal management information system that will allow management to create and administer the social programmes in a better way. This involves the determination of the objectives of the social programmes and a social cost benefit analysis of the programmes with a view to determining whether these objectives have been met
2. **Financial Statement Format Audit:** Under the financial statement format audit, the social information is presented in the conventional financial statement format, ie, balance sheet and / or income statement.
3. **Macro-Micro Social Indicator Audit:** The macro-micro social indicator audit attempts to evaluate the micro indicators (i.e., the company's performance) against a set of macro indicators such as national policies.
4. **Constituency Group Audit:** Under this audit, the preference and attitudes of various constituencies (like employees, creditors, suppliers and customers) are identified and measured and the firm's performance is evaluated against the criteria developed for each group.
5. **Partial Social Audit:** Partial social audit evaluates any particular aspects of social performance like energy conservation or ecological preservation
6. **Comprehensive Audit:** Comprehensive audit attempts to evaluate the total performance of the organisation including social performance.
7. **Corporate Rating Approach:** In contradistinction to the audits mentioned above, this is an external evaluation of the company's performance by public groups like consumer organisations, social welfare organisations or media.

Obstacles to Social Audit

Social audit encounters a number of problems. The important obstacles are

1. Being a relatively new concept, social audit is yet to gain wide appreciation and acceptance.
2. Being a relatively new concept, a clear and generally well accepted methodology for conducting the social audits is not available.
3. There is no agreement as to the items to be included for social audit.
4. It is very difficult, and in several cases even impossible, to quantify the social costs and benefits of different activities or items.
5. There may be resistance within the company to social audit because of the time, effort, and difficulty involved in the task.
6. There may also be resistance because of the fear of a dismal or unsatisfactory picture that may be presented by the social audit.

As the Committee set up by the Tata Iron and Steel Company Limited (TISCO) to conduct the Social Audit of the TISCO points out, though social audits have been undertaken in a number of countries, principally in the U.S.A. (to which the practice owes its origin), Japan, the U.K. and one or two other Western countries, the subject has not yet attained the status of a science. There is no agreement, much less unanimity, among its most ardent proponents, particularly as to its basic principles or its true objectives. It is only a child of the last decade, during which there has been a growing concern about the environment and the problems of pollution, consumer protection, worker's safety and equal employment opportunities. Melvin Anshen, Professor of Public Policy and Business Responsibility at the Graduate School of Business, Columbia University, and an eminent authority on the subject, remarks that "the social audit has been described as an idea whose time has come but which isn't ready to be taken off the drawing board and put to work".

Social Audit in India

The first comprehensive social audit in India was conducted by the TISCO in 1980. It was conducted by the Social Audit Committee appointed by the Board of Directors of the company "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 report of the Committee was a glowing tribute to the endeavours of the company in the discharge of its social and moral obligations to the various segments of the society. Some companies like the Cement Corporation of India have been making some social reporting in their annual reports. The High Powered Expert Committee on Companies and MRTP Acts (Sachar Committee) observes that the acceptance of the concept of social responsibility must be reflected in the information and disclosures that the company makes available for the benefit of its various constituents - shareholders, creditors, workers and the community and has suggested that a provision may be made in the Companies Act that every company shall give a social report which will indicate and quantify, in as precise and clear terms as possible, the various activities relating to

social responsibility which have been carried out by the company in the previous year. The Committee has further suggested that it is possible that a company may be required to alter its Memorandum with respect to the objects of the company so as to carry out its activities as an obligation to the concept of social responsibility. It should be pointed out here that the TISCO had, in 1970, voluntarily incorporated in its Articles of Association its social and moral responsibilities to the consumers, employees, shareholders, society and the local people.

Although the idea of social audit originated in the United States about half a century ago, it is only recently that it received serious attention of corporations even in the advance countries. The concept of social audit has not yet taken off in India.

Summing-up

We may conclude that a social audit enables the public as well as the company to evaluate the social performance of the company. The social audit much like the financial audit is identification and examination of the activities of the firm in order to assess evaluates measure and reports their impact on the immediate social environment. There is no single universally agreed upon method of social auditing. Some of the important methods of social audit developed by different people or organisations include social process audit, financial statement format audit, macro-micro social indicator audit, constituency group audit, partial social audit, comprehensive audit, and corporate rating approach.

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