

## A VIEW OF SOCIAL AUDIT

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*Social audit reports, supplied by important firms in India as well as abroad, focus on only those activities which are voluntarily undertaken by the business unit as its social responsibility or commitment in the area where it is situated. But this is too narrow a view of social audit. We think that such a report should include all the identifiable effects, good and bad, of its operation. For getting an idea of all these effects we should prepare a social impact assessment report in the manner of the environmental impact assessment report which contains all the possible environmental effects of a proposed big project like a dam or a power plant. The tasks which would have to be done are mainly three: 1. impact identification, 2. impact evaluation and 3. impact comparison.*

What is social audit, really speaking? Let us take the expression "safety audit". It is clear that it refers to the audit of the safety measures installed in a work place. But the expression "social audit" is not as clear in its meaning as "safety audit", although social audit reporting is now about four decades old and practised in many advanced as well as less developed countries, including India. What is the basic philosophy underlying this practice? Any business unit has a social commitment as, for its flotation and successful operation, it has to take much from society, and therefore it is morally bound to reciprocate by doing something for society, at least by trying to compensate society for the harmful effects, if any, emanating from its activities. This is what is usually meant by social responsibility or accountability of business. Thus the origin of the modern practice of social audit reporting lies in the concept of social responsibility (or accountability or commitment).

What is actually the area of social audit?

1. Should the report focus on only those activities which are voluntarily undertaken by the business unit as its social commitment in the location where it is situated? Or
2. The report should include all the identifiable effects, good and bad, of its operations? Business firms have been gradually increasing over years their social commitment activities, and, as a logical corollary, broadening the range of information supplied in their social reports. But firms are yet far from the position where they supply all relevant

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information. In this connection, it has been customary with accounting scholars to pick up certain economic interest groups (like owners, creditors and customers) and identify sum total of the responsibility to each group as the total social responsibility of business on which to focus while preparing social audit reports.

But unfortunately this breakdown of social responsibility into some components, although in practice very useful, is not enough to identify the sum total of the responsibility of business towards society, for society is a much wider category than the sum total of the economic interest groups directly or indirectly affected by business activity in the short as well as long run. Social responsibility is only partly economic. Most economic variables are more or less measurable and capable of being converted into money terms somehow – something highly relished by accounting scholars (e.g. the Seidler and the Estes Models).

Audit of social work done by a business firm cannot be called social audit. As a matter of fact, social responsibility arises because the firm cannot do anything which had a zero social effect. As any kind of business activity at any of its stages has some social effect, social responsibility requires that the harmful effects be minimized and the beneficial effects maximized, so that net social benefit is at least not negative. So analysis should begin by considering all the possible identifiable effects of the activities of a business enterprise as in environmental impact statements which incorporate all tangible as well as intangible non-material effects in different areas of social life. Environmental impact assessment (EIA), introduced first in the USA in 1969 and subsequently in many other countries, including India in the 1980s, has been developed as a comprehensive approach for project appraisal. It requires the preparation of a statement containing all the possible environmental effects of a proposed big project like a dam or a power plant. This framework of EIA can be used in the preparation of social audit reports.

For getting an idea of the social impact of business we can divide the social effect of business into (a) economic and (b) non-economic. The non-economic effects may again be sub-divided into 1. political, 2. cultural, 3. those related to the family, 4. biological (mental and physical health), and 5. environmental. Obviously, the division is neither exhaustive nor watertight. Some effects may be difficult to fit into any category and some may simultaneously belong to more than one category (e.g. effects belonging to 4 and 5) involving a kind overlapping. It is not so easy to point out exactly where economic effects end and non-economic effects begin, for one may shade into the other.

The economic effects are effects upon interest groups who are affected economically, for



good or ill, by business activities. Such economic groups comprise, amongst others, owners, creditors, consumers of output which supplements or competes with the product of this business, producers and sellers of input used by this firm, the government at home and such governments abroad as maintained trade relationship with the country where the concerned business is located, personnel employed in this business, as well as neighboring people. If these effects are too numerous, we may have to be selective, retaining some and omitting others, while preparing the assessment or social report.

The birth and growth of a business firm has effects on the political atmosphere of the country, partly indirectly through the economic effects and partly directly because the interest groups served by the firm may have links with the different political interest groups of the country. The major political interest groups are the ministry or the government at home as well as governments abroad, political parties, trade unions and smaller political lobbies and organizations. Thus, the firm may be such as enhances the prestige of the government, or it may be one whose existence and modus operandi jeopardize the political atmosphere because of the pressure it brings to bear upon the government through the extension or withdrawal of its support. Many business firms possess tremendous power to influence the making of government policy.

In the area of culture, the major interest groups are the different religious and other communities with distinctive cultural characteristics of their own. When through the aggressive marketing efforts of multinationals, the culture, tastes, values, and beliefs of a country gradually get transformed and the problem of cultural imperialism arises. The products of a firm may improve or degrade the cultural habits of consumers at home or abroad. Foreign-influenced commercial cinema is looked upon as a positive contributor to cultural degeneration in India. The provision of quarters to low-income workers in industrial towns, while contributing to labour welfare in many ways, has also been responsible for the severance of the 'rural nexus' of Indian people and the steady disintegration of the family in the Indian villages. The natural environment in these industrial towns, being less healthy than that of the villages, has also adversely affected both the physical and mental health of workers and their families who have migrated there from the villages. Industrial life has also weakened family life and family ethics.

Business expansion has salutary effects upon the unemployed through increased employment opportunities and upon the employed through increased scope for economic betterment, improved job security and industrial relations. On the other hand, continuous economic expansion, resulting in overcrowding and excessive noise may

result in excessive stress in the form of hypertension, sleeplessness, impotence and propensity to commit crime. Other types of psychological disorder may follow when people have to live in over congested area. The physical health of both employees and people in the vicinity of a plant is affected by environmentally induced diseases which result from the emission of toxic materials from a plant, raising simultaneously the medical bill of those affected.

Business activities may result in the destruction of the natural environment through such means as a changed landscape (e.g. river view or hill view) and reduced recreational facilities from the use of such environmental resources as lakes, rivers and valleys.

A social audit report should therefore, in our view, incorporate all these effects of an enterprise upon the various aspects of social life as many of these effects are incapable of being given money values, they cannot be disclosed in an ordinary social balance sheet. Hence, to reiterate the need for enumerating them in a kind of social impact assessment (SIA) in the style of the environmental impact assessment for big resource ventures.

The tasks which would have to be done in any SIA are mainly three: (1) impact identification, (2) impact evaluation and (3) impact comparison. Theoretically, various techniques are available for impact identification (e.g. checklists, overlay maps, networks, complex indices and matrices). But in view of the very large number of the different impacts, the checklists technique would be the easiest to handle. For impact evaluation scores may be prepared on the basis of some social judgment, so that information on the magnitude of each and every identified impact can be supplied. The algebraic sum of the different scores, positive scores for beneficial and negative scores for harmful impacts, would provide an idea of the net social benefit to be derived from the initiation or maintenance or contraction/expansion of the concerned economic activity.

It is true that there would be difference of opinion as to the score to be assigned to a particular impact. Some may attach great importance to pollution to be caused by the concerned activity, while others may emphasize employment generated by the firm more than pollution. But the difficulties are not insurmountable. The multidisciplinary nature of SIA requires that the audit report has to be a collective venture to be prepared by an interdisciplinary team of experts (including, for example, accountants, economists, social scientists as well as people of environmental science). It can be realized that very small enterprises have little impact on society. The larger the size of the firm/project, the greater would be the social impact.

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