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**SOCIAL AUDIT AND REPORTING: CURRENT SITUATION AND
TRENDS OF FUTURE DEVELOPMENT**

Bachelor's thesis

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I declare I have written the bachelor's thesis independently.

All works and major viewpoints of the other authors, data from other sources of literature and elsewhere used for writing this paper have been referenced.

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ABSTRACT

The title of the Bachelor's Thesis is "Social audit and reporting: current situation and trends of future development".

Social audit is an audit that provides as a result what kind effect the company has on the society including environmental, employee and charity issues. The research was made in order to discover if public aware of social audit. It turned out that in East-Europe not many people are aware of social audit. The concept is not among prime interests of the public. Worldwide, however, social audit has become very popular among big companies. The research showed that it is better to call the concept some other title that does not include word "audit" as it confuses people. As at the beginning, some type of social audit was required by the governments, most conducted on mandatory bases only. Nowadays, however, more and more companies posture social reporting which is part of social audit annually because they understand benefits. Social reporting is becoming one of the vital marketing tools.

Even though, social reporting is popular and might be required by the government, the quality of it requires more development. The world is changing and in near future social issues might become the ones that would drive the world. Therefore, in order to go with the times companies, not only large ones, should consider social reporting as a good tool to attract customers, investors and partners.

Key words: social audit, corporate social responsibility reporting, CSR reporting.

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INTRODUCTION

Social audit is an interesting topic for a research. The history of social audit began back in 1950s. Through decades, it was developing very slowly; however, nowadays we can see that the difference between the originally proposed concept of social audit and what is happening today.

Even though social audit has a long history and is used many large companies and countries, it is not well known among public and small companies. People are not aware of the concept what makes it difficult to use social audit and reporting as an advantage in order to increase sales.

The author has formulated following research questions:

1. Are potential customers aware of the definition “social audit”?
2. Is social audit concept popular among enterprises and what are the trends?
3. What is a possible future of social audit?
4. Can social audit be used in advantage in a competitive business world?
5. Should the definition “social audit” be used?

The objective of this research is to find out the awareness of social audit concept among public.

In order to find answers to the research questions and to achieve the goal, the author analyzed the history of social audit development as well as current situation using articles and surveys conducted on the topic as a main source of information. In order to understand what the opinion of potential customers is, the author conducted brief quantitative research to support qualitative findings.

The qualitative research was conducted in form of interview. Interview was conducted in three different groups to which potential customers were divided:

1. People who definitely know what social audit is and who work with it – e.g. auditors;
2. Working and not working people;
3. Self-employed and owners of a company

Quantitative research was conducted at Tallinn University of Technology among students from different countries who, at the moment of the research, were studying there.

The first chapter of this paper contains the history of social audit. Different frameworks and researches are briefly described in order to understand how social audit was developing.

The second chapter of this paper contains the quantitative and qualitative findings of the research. Both qualitative and quantitative findings are put in form of graphs and text.

The third chapter of this paper contains the results, suggestions and answers to the research questions.

1 THEORETICAL FRAMEWORK

Theoretical framework gives an overview of social audit, history of development of social audit, principals and possible frameworks of social audit. Theoretical background was gained by study of articles of American and European origin. Furthermore, theoretical framework also includes current situation of social audit concept based on KPMG CR survey.

1.1 What is social audit?

A social audit is “a formal review of a company's endeavors in social responsibility. A social audit looks at factors such as a company's record of charitable giving, volunteer activity, energy use, transparency, work environment and worker pay and benefits to evaluate what kind of social and environmental impact a company is having in the locations where it operates.” (Social . . .)

Like any other audit, social audit checks out how well the reports of the particular company matches with what that company is actually doing. One type of those reports is called corporate social responsibility report.

Current world situation makes public more and more concerned about environmental and social impact of the companies. Even in Estonia, according to latest research 96% of respondents stated that social activity of the company is an important issue. (Veersalu 2011,)This concern drives some countries to make social audit compulsory for particular types of companies, while in other countries it is still under discussion if it should become mandatory. However, social audit as it is explained by definition is mostly optional, it is known that at least in 40 countries in the world some sort of social audit is required by government. It might be only environmental part of it required for companies that has big impact on environment or only social part required for companies that has more than certain number of employees. Nevertheless, it is a worldwide practice in the world to conduct such audits annually. (Carrots . . . 2013)

As many companies are required to conduct some sort of social audit, some of them also posture full corporate social responsibility reporting, or CSR reporting, as it makes the process of

audit simpler. Others conduct CSR reporting on their free will, using it as a competitive and marketing tool. Therefore, the author makes CSR reporting as one of topics to research.

1.2 Social audit before 1970

Social audit as a term was first used by Krepts, back then a Professor of Business Economics at Stanford University, in 1940th in a monograph “Measurement of the social performance of business”. He stated in this work that back in 1940th social audit concept was very controversial. "The acid test of business is not the profit-and-loss statement but the social audit. Concerning the basic elements of such an audit there has been a great deal of controversy. But it has been centered for the most part on certain imponderables that are not capable of exact measurement". (Carrol, Beiler 1975, 591) Krepts idea of social audit was mostly based on desires of the nation regarding business' performance. He clearly understood that some other measurements should be created, as measurements of wants of the nation were difficult to declare. He analyzed companies in different industries to try to come up with a general measurements with which social audit could be conducted. He ended up with six general measurements (Ibid.):

- 1) employment,
- 2) production,
- 3) consumer effort commanded,
- 4) consumer funds absorbed,
- 5) payrolls,
- 6) dividends and interest.

However, Krepts understood that those measurements could not fully describe business performance during one particular period. Therefore, his suggestion was to use those figures in comparison with industry's figures for the same period or the company's performance during different periods.

Purpose of such an audit was government evaluation of business's social performance. It had to be conducted by outside auditor. Motive of social audit was to establish criteria and techniques for society to assess and influence business performance. Social audit was meant to be used to assess business performance to society.

In 1953, Howard R. Bowen made up his own idea of social audit in "Social responsibilities of the business". He found out a bit different measurements of evaluation of social performance of the company, meaning social audit including (Carroll, Beiler 1975, 594):

- 1) price,
- 2) wages,
- 3) research and development,
- 4) advertising,
- 5) public relations,
- 6) human relations,
- 7) community relations,
- 8) employment stabilization.

Purpose of this kind of social audit was to evaluate social performance of the company on company's level. It had to be conducted by a special team of auditors preferably from inside of the company. Motive of this social audit was to bring social point of view to management. Social audit was supposed to be an evaluative device for management to assess performance of the company.

Comparing purpose, motive and use of both audits purposed in 1940 and 1953, it could be conclude that only 10 years of doing business changed the idea form making social audit public to processing it only for internal use of the particular company.

Both social audit concepts provided by Krepts and Bowen were very broad and mostly unclear from the point of how to conduct it and from the point of how to work with results of such audit.

Therefore, when more concrete social audit concept was described by Fred H. Blum in 1950th, he was thought to be the one to conduct the first social audit.

Blum stated that what he was doing was, in a way, similar to so called "morale survey" with the only but very important difference in attitude towards employees. When conducting

“morale survey” workers were perceived as just tools of the company, however, when conducting social audit they were considered as human beings with rights. (Blum 1957, 77)

Blum described social audit as a tool to measure the success of the company to meet its social responsibilities. According to Blum, the purpose of social audit was to measure how well workers were adjusted to company’s needs and how well company was adjusted to workers’ needs.

Blum interviewed workers about different aspects of company’s life. Those aspects were divided into two categories: Organizational and Individual. (Ibid.)

Organizational aspects:

- 1) competence of top management,
- 2) satisfaction with position in the company,
- 3) fairness of earnings distribution,
- 4) adequacy of information,
- 5) effectiveness of organization as a whole.

Individual aspects:

- 1) satisfaction with personal relations,
- 2) present use of abilities,
- 3) satisfaction with pay,
- 4) basic work satisfaction.

Blum gave scores to each aspect in order to compare the results with different companies or different periods of one company.

When he finished with survey, he ended up with some “ultimate criterion”, as he called it, with which to evaluate the performance of the company. “Deeper satisfaction of the human need for unity and integrity” (Ibid.).

He formulated the purpose of social audit as “The social audit seeks to increase the value for which business takes responsibility by including human values as “cost items” in its cost accounting system. This, and only this, is a realistic and practicable way of meeting men’s demands. It must be a gradual process of expansion, in tune with the competitive needs of the business, yet nonetheless systematic enough to restore human value to that key position lost during the nineteenth century. It is because efficiency has become industry’s principal concern

that the social audit has its essential contribution to make. It challenges the effectiveness of the prevailing concept of productivity (the cost concept). It demands a broadening of this concept in such a way as to make human values central and to regulate all technical-mechanical considerations to a secondary role". (Blum 1957, 85)

Even though all three types of social audits have their own particular measurements, we still can see the relation between them. What Blum did was gathering information from previous social audit researchers and making it more specific. Although Blum did not mention how he saw social audit should be used, it can be concluded that this type of audit could be used both for internal and external purposes.

Blum's social audit was the first step for the social audit to become what it is nowadays.

1.3 Social audit during 1970th

In 1973, the concept of corporate social audit expanded to a broader meaning. The society already agreed that any company has an impact on society. Therefore, public and government were becoming more and more concerned about companies' social responsibilities and how they meet them. The pressure from the public generated more researches and more social audits to be conducted. Different companies were doing social audit for themselves or for the other companies. Therefore, it was inevitable that many different ideas and patterns of social audit appeared.

Interest towards social audit was growing; however, there was still no exact way of how to conduct it. Every single enterprise conducted it with its own way, the way chosen by top management.

Many difficulties were faced during implementation of social audit. The research of Bauer and Fenn showed five most common of them (Bauer, Fenn 1973, 40):

1. How to decide what to audit?
2. What are the measures?
3. What constitutes success?
4. Where are the data?

5. How accurate can we be?

It was obvious that some general pattern should be developed to avoid simple difficulties.

1.3.1 Framework by Bauer and Fenn, SEOS

Bauer and Fenn after conducting different researches came up with some ideas of what should be taken into consideration when starting social audit.

First of all, they suggested thinking about social audit, as it was for internal purpose only, however, that the final report could be brought to the public.

Secondarily, they suggested focusing on social programs rather than social impact.

Increase of problems with assessment, Bauer and Fenn suggested having process audit. It was a very innovative idea, which consisted of (Bauer, Fenn 1973, 47):

1. assessment of circumstances under which each social program being audited came into being,
2. explicate the goal of the program,
3. spell out rationale behind the activity,
4. describe what is actually being done.

According to Bauer and Fenn, social audit should be conducted internally by the company itself.

Purpose of such audit was to help break down term of “social responsibility of business” to identifiable components and to develop scales that can measure this components.

Objectives of social audit were (Ibid.):

1. Assist various institutions and groups through political process to assign relative weights and priorities to various elements of social responsibility.
2. Fix responsibility for overseeing performance.
3. Assist existing and emerging socioeconomic institutions, notable large corporations, to alert their modus operandi and goals to meet the new performance criteria thus established.

Measurements of social performance of the company that Bauer and Fenn used (Ibid.):

1. minority employment,

2. pollution/environment,
3. working conditions,
4. community relations,
5. philanthropic contribution,
6. consumer issues.

Two different approaches were used in 1973, according to Sethi (Sethi 1973, 34):

1. “Reaction to perceived reality”. Company was supposed to recognize public “perceived” needs and make some standards for them. This approach was used for external purpose.
2. “Maximum capability, utilization and best effort”. This is an internal purpose of the approach. At the end of the audit company could chose such projects that would make the best use of the company’s capability in performing socially desirable programs and practices at the least cost.

A good social audit is supposed to have both approaches used if possible.

Aims of social audit were recognized (Bauer, Fenn 1973, 44):

1. Helping company to monitor its activities in order to make sure that all the programs were working most efficiently and were actually going towards desired output.
2. Gathering data to help management in improving performance and selecting future activities.
3. Enable management to report accurately and objectively on its activities in a manner that provided the interested public a true index of the corporation’s performance and a basis for comparing it with the activities of similarly placed corporations.

Bauer and Fenn developed an understandable framework for social audit, which was much more advanced than any of those suggested previously. However, it did not prevent other companies and individuals from seeking for a better social audit description and framework.

What was the ultimate success in social auditing? Social audit was perceived to be fully successful when company could report its performance not only in terms of results (number of people hired), but in terms of effectiveness and benefits to society.

Mostly, social audit was about social needs of society in terms of personal gain and result. Very few at the beginning started including in social audit factors and programs reflecting environmental situation.

As more and more companies were occurred in making harm towards environment, more and more preventive programs would took place. Those who did not understand the idea of social audit and its necessity were still arguing that financial audit was enough to assess company's performance. However, as a counterargument there was used a fact that financial statement did not show harm of a company to environment. On the other hand, it also did not show any positive impact that was achieved by several companies establishing environmental programs. It only showed how much money for environmental programs was used. But used for what? For making harm or for improving the situation?

In 1973, Linowes made a very unusual proposal. He suggested borrowing from economics and applying the "system" of economic and fiscal measurement to social areas. He used term "socioeconomic measurement" and the product of it would be a socioeconomic operating statement (SEOS). (Linowes 1973, 40)

Along with profit and loss statement and balance sheet, SEOS should be prepared periodically. He suggested including in it only voluntarily made expenditures towards employees' welfare and the public, product safety and environmental conditions. Everything that should be done mandatory should have been excluded from the SEOS, as they are necessary costs of doing business.

The result of SEOS statement would be a "total socio-economic contribution or deficit for the year" that could be compared with other same statements of different companies in the same industry and with other same statements within the company for past periods. He also proposed to have a new unit of measure to be invented – socio-economic management dollar – to measure all voluntarily expenditures of a social life nature. (Ibid.)

Linowes suggested making such an audit compulsory for all companies. He saw SEOS report to be highly demanded in the future by consumers, institutional investors and government regulatory agencies. As the report would be open for the public, it would motivate companies to invest more and to establish new social and environmental programs, which would ultimately help in the future.

1.3.2 Social audit approaches in 1970s

There were not many social audits conducted by 1973, however, according to Butcher, all the conducted audits could be classified under four different approaches (Butcher 1973, 11):

1. the social indicator approach;
2. the constituent impact approach;
3. the corporate rating approach;
4. the social program management approach

The idea of **social indicator approach** was that scientists would develop some overall quality-of-life index by which the ups and downs of the social health of nation would be monitored.

Two banks tried to implement the social indicator concept. In 1972 annual report of the First National bank of Minneapolis with ten aspects of the quality of life were identified (health, transportation etc.). After identifying those aspects, bank tried to develop measurements for each of them.

On the contrary, New York bank engaged an outside consultant and formed a top-level committee on the social audit. They wanted to implement a number of special loan and other programs into some areas of New York City to reinforce government efforts. The result would be monitored by measuring changes in branch performance as well as selected community social indicators.

However, two very difficult limitations were faced by banks.

The first one was the reliability of the social indicators themselves. The questions arose: Does an increase in the number of high school graduates going to college really indicate higher quality education? Does an increase in home ownership really indicate better housing? Those types of questions were unanswered for years.

The second limitation was that it would be very difficult, almost impossible, for banks to determine what impact their individual programs had on the changes in the community.

Constituent impact approach was an attempt to put into the traditional balance sheet all the relationships between a company and all other stakeholders, such as employees, customers, suppliers, community and public.

In 1971 Abt Associates, a consulting company in Cambridge, Massachusetts, made an annual report, which contained a so-called social income statement that listed the social costs and benefits of the company's operation in relations with each constituent group. The idea was to list such issues as fringe benefits and a day care center as a social benefit to employees while list "overtime worked but not paid" as a social cost to them.

Such an approach might be helpful in order to explain what exactly company was doing. However, in such a statement there was not much information for decision-making. Showing benefits and costs for a constituent group did not show if the company was actually succeeding in those projects.

Another form of constituent impact approach was conducted by R.G. Barry Corporation of Columbus, Ohio. In three successive annual reports, Barry presented separate finance statements in which the value of its human resources was included like any other asset. Salary and training costs were viewed as investments with expected long-range return rather than as controllable expenses. According to Barry, such an approach helped to improve labor-management relations, reduce turnover, and upgraded productivity. (Butcher 1973, 12)

Corporate rating approach was used by groups and individuals outside any company in order to determine if the company was responding well to social and environmental demands. This approach was motivated by universities, foundations, church, and certain mutual funds that wanted to maintain portfolios of "socially responsible" stocks. Every group was trying to find its own criteria of evaluation. However, it was very difficult for any of them to answer common for social audit questions: what to measure, how to measure, how to weight the diverse aspects of social performance, and how to rate companies.

One more research was done by the Council on Economic Priorities in New York. The Council conducted several industry studies to rank companies according to their pollution control efforts. No other criteria was used, however, the Council went much forward the others by actually ranking the companies.

Corporate rating approach could be quite a good method of doing audit if they managed to make some criteria by which they would rank companies inside the industry. However, such an approach still had many limitations for decision-making. (Ibid.)

Very different to all the others was **social program management approach**. According to the Bank of America, this approach was different in two important ways (Butcher 1973, 13):

1. Demand in concentration of all the efforts on measuring only those activities in which the company is involved largely for social reasons. The social impact, however, was still considered to be beyond quantification at the point.
2. Demand in developing of an internal management information system that would allow better evaluating and administering special socially oriented programs. External reporting was a secondary importance.

Objectives:

1. find out approximate costs of social programs,
2. evaluate effectiveness of social programs,
3. budget and improve return on investment.

Advantages:

1. The approach translates squishy social programs into the comparatively rational, cost/benefit terminology.
2. It should allow management to incorporate social considerations and dollar commitments into its overall planning and budgeting process.

Limitations:

1. This approach was not very useful for external purposes.
2. The approach concentrated on special programs mainly, omitting about those that were ordinary programs and those that did not require any investment.
3. This approach is not very helpful in decision-making. The process did not include an estimate of the needs and demands of the communities.

Taking into account all the social audits conducted in the period of 1950-1975, problems and characteristics of those audits can be determined as follows:

1. The idea of the audit came from top management. Nobody knew for sure what was meant by it, and whether people understood his idea correctly.
2. The budget and work force were too small for such a job.
3. Audit itself was too complicated to be conducted without even knowing what to do.

4. In the board management there was always somebody who did not see the point in social audit, which made a lot of restrictions and limitations.
5. It was unclear what should be included in social audit, therefore too many different approaches were implemented and too different results occurred.

But, why companies and individuals kept trying on conducting a good social audit?

Because for internal decision-making social audit would be very helpful, if actually there will be found a proper way to conduct it. It would:

1. satisfy the corporate conscience,
2. help staying out of trouble,
3. solve social problems,
4. improve the financial wisdom of social programs,
5. enforce social policies.

After studying all the existed models and approaches, after analyses of their strength and limitations Sethi suggested his own framework. To conduct a social audit, a company would first have to create procedures to accomplish following goals (Sethi 1973, 35):

1. Evaluate its external social environment.
2. Generate specialized internal data, delegate authority, and pinpoint responsibility.
3. Select the course of action that will best utilize its resources while responding to external constraints.

In other words, a company must perform this function as it does its normal, profit-oriented activities.

The primary aim of the framework was to develop long-range goals and medium-range strategies. This model recognizes four types of external constraint to which a company must respond and adapt its behavior to (Ibid.):

1. existing legal constraints,
2. anticipated legal constraints,
3. pressure from the general public and special-interest groups,
4. performance of other companies against which the company is likely to be compared.

Four stages of the framework (Ibid.):

1. Stage one

Current programs of the company should be compared with its long-range goals and medium-range strategies using internal audit.

2. Stage two

Current programs should be compared with other alternatives (making changes where efficiency and adaptability can be improved) and the effectiveness of a company's programs should be compared with programs of other enterprises.

3. Stage three

1. the company should make changes in its internal mechanism to alter its long-range goals and medium-range strategies;
2. the company should try to exert pressure to relax those external constraints, which it found either difficult or impossible to meet.

Studying other conducted social audits Sethi found out that usually those who conducted social audit still did not know precisely what to do and how to measure the findings.

Therefore, he proposed several steps that should be made by everyone who tried to find the way of measuring finding when conducting social audit (Sethi 1973, 37):

1. A new way for looking at the problem should be defined. This assumes that the problem as it is currently defined and understood cannot be solved.
2. As the way for looking at the problem was changed, recognition of new type of data is required.
3. Search existing data to determine if it can be used in some modified form to solve the problem.
4. Break the problem into small components or into a set of hypotheses.
5. Test each hypothesis with either existing or new data.
6. Use successive hypotheses as building blocks for theory construction as well as for the generation of new data.
7. Build more comprehensive theories by combining elements of various hypotheses previously tested.
8. Refine measurement scales based on earlier tests and make them integral parts of general theory.

With every new research conducted, researchers had more data to analyze, therefore they came with more and more advanced frameworks of how to conduct social audit. However, it is obvious that there was not much new in them. Researchers were giving out more advices to companies in order to help them with conducting a good social audit.

1.4 Evolution of social audit (1990-2001)

Looking back at the popularity of corporate social audit and how it grew up and using information received from the articles, it can be concluded that in 1971 there were not that many companies trying to conduct social audit. Then in 1972, the amount of those companies doubled. Then in the year of 1973, the year most popular for conducting social audits and researches about social audit, almost every large corporation in USA was doing it.

From 1975 till 1990 interest in corporate social audit declined. It was too difficult to conduct and the results were uncertain.

However, in 1990s the interest started growing again. New ideas, methods and approaches were developed in order to finally achieve a framework for a good corporate social audit.

The understanding of impossibility of making some standards for all social aspects turned researcher into a typically new approach. The main idea of social audit during 1990s became to determine how well a company is living to its visions and values.

In 2000, there were two types of social audit with the other name of responsibility audit (Waddock 2000, 341):

1. Audits that tap external stakeholders' perceptions of corporate practices.
2. Internal audits of the actual practices themselves to determine their impact on relevant stakeholders, as well as overall corporate performance.

Responsibility audits were mostly taken in order to improve internal practices. The result of such an audit could be used in order to determine if any improvements need to be done to enhance practice. The example of a responsibility audit would be the audit that assessed companies' practices in four areas: employee practices, community relations practices, environmental practices, and quality practices. All those practices were then compared to the

stated mission and values of the company to where improvements could be made that would add to profitability. (Ibid.)

Such responsibility audits were based on simple premises related to different stakeholders, with the specific objective to be responsible for. For example, companies that controlled their pollution would avoid fines and associated legal fees. Organizations that treated their employees with respect and developed proactive, family- and worker-friendly policies, found that their employees were more productive, loyal, and committed to company purposes. This loyalty not only resulted in higher productivity, but also lowered turnover, absenteeism, and tardiness, avoiding associated costs.

In mid-1990th, the idea of social auditing started intensively spreading among countries in Western Europe. More and more companies started experimenting with different types of social reporting.

Most of the largest companies started to feel pressure from society to actually start reporting externally all their social activities. Other companies were using social audit mainly for internal purpose.

European countries went much beyond USA in understanding of how to present non-financial data and with underlying conceptual basis for that presentation.

Such a wide spread of social audit concept started mainly in Germany. Three different systems became most popular in Germany, later in Europe (Dierkes, Coppock 2000, 22):

1. A broad-based and partially integrated reporting system linking company expenditures to social benefits.

Even though this system was popular among companies, reports using that concept had difficulties presenting social benefits in a quantifiable form comparable to company expenditure. In addition, social costs and negative consequences of company activities were missing. The report attempted to present the reduction of damages and a broad spectrum of benefits to society related to company activities.

2. An extension of the traditional reporting of social relevant information.

Quite a promising system, which was still criticized because of the gap between the demands placed on social reporting in Europe and information included in these reports.

3. Corporate goal accounting/reporting.

The most successful system in the long run included integration of the annual report and social reporting. It was based on the recognition that companies with a sophisticated management system usually had elaborated statements of goals or purposes describing the economic and societal objectives the companies had set for themselves.

Such approach had one clear advantage over the others. The discussion centered on unambiguous and specific objectives, such as a reduction of emission, rather than vague societal effects that are difficult to define and hard to measure.

In Europe, both trade unions and employer's associations quickly understood the idea and importance of social reporting. Some governmental bodies were against such a system to be massively established, others wanted it to become compulsory. The biggest problem remained the same as it was in 1970th: what to include in social audit?

However, several countries already made social audit to be compulsory. For example, in France in July 1977 the law was passed requiring all companies that had more than 750 employees to publish social report regularly (Antal, Sobczak 2007). Even though that law identified 94 indicators to be put in a report, they mostly were concerned about working environment. Many companies and individuals still thought that even though the law already existed, it was too narrow and did not contain all necessary aspects. Therefore, experiments for ideal social audit continued.

Some other countries, like Norway, required social audit to be mandatory, however, they did not determine what was supposed to be included in it. Therefore, experiments for ideal social audit continued in many other countries, in those that the law was not passed and those where it was passed.

After 2001, not many researches were conducted regarding social audit. Many different experiments in different countries took place in order to identify what should be included in a good social audit report, how those things should be measured. In every country, the situation was developing according to its legislation. If the country made social audit compulsory but did not identify aspects of measurements, then some audit organizations as well as companies themselves were conducting their own type of audit. If the country made social audit compulsory but did define aspects of measurements, then audit organizations and companies themselves were

conducting social audit including those compulsory aspects, however, they usually included other activities as well, those they thought to be covered.

1.5 Current situation in the world

Current situation is based on popularity of CSR reporting, as not much research was conducted since 2000 regarding social audit. Current situation in the world is described using the information received from The KPMG Survey of Corporate Responsibility Reporting 2013 and 2015. Statistics from 2013 and 2015 helps in better understanding of popularity of CSR reporting as well as to predict some of possible ways of the development of the situation.

1.5.1 The KPMG survey of corporate responsibility (CR) reporting 2013

This chapter is based on the information received from The KPMG Survey of corporate responsibility reporting 2013. (The KPMG . . . 2013)

In 2013, KPMG made the survey in 41 countries. They gathered statistical information into two groups:

1. N100 represents 100 largest companies in each country. Those companies are identified by KPMG by revenue based on a recognized national source or by market capitalization or other sector/appropriate measures.
2. G250 represents 250 largest companies in the world. These were identified as the top 250 companies listed in the Fortune Global 500 ranking for 2012.

Global trends identified for 2013 were:

1. CR Reporting sees an exceptional growth in emerging economies.
 - 22% increase in CR reporting rates in Asia Pacific region since 2011.
 - America has overtaken Europe as the leading CR reporting region, due to large increase in CR reporting in Latin America. (see Figure 1)

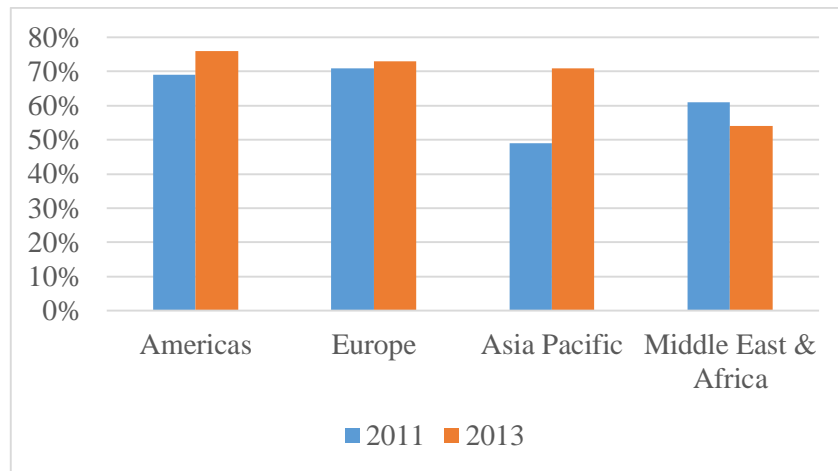


Figure 1. CR reporting by region (Percentage of companies with CR reports)

Source: (The KPMG . . . 2013, 22)

- CR reporting is now undeniably a mainstream business practice worldwide. 71% of 4100 companies use CR reporting.
- Among G250 companies, CR reporting is at 93%. (see Figure 2)

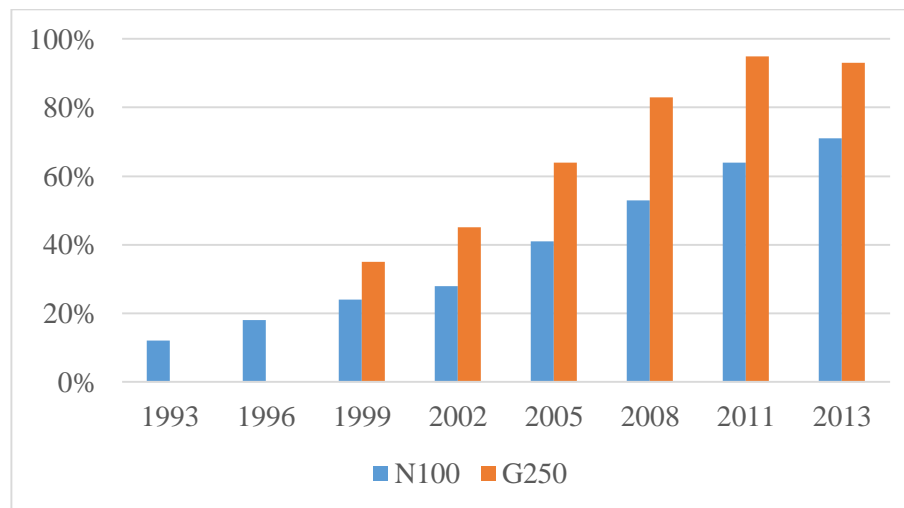


Figure 2. Growth in reporting since 1993 (Percentage of companies with CR reports)

Source: (The KPMG . . . 2013, 22)

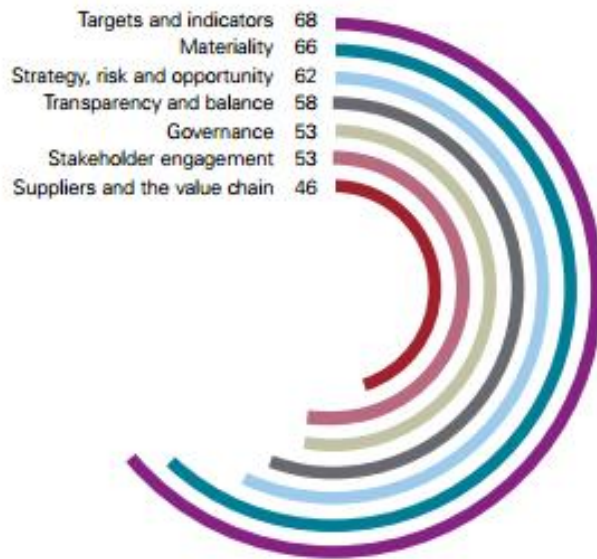
2. Narrowing gap between leading and lagging industry sectors.
 - Irrespective of industry CR reporting can be considered as a standard global practice as more than half of the companies in each sector make CR reporting.
 - Between highest scoring industry and lowest scoring one, there is only 22% gap now.
3. CR reporting becomes a normal practice in annual reports.
 - The huge increase in that practice can be seen as in 2008 9% of companies worldwide included CR in their annual report. In 2011, 20% of the companies worldwide used that practice. In 2013 51% of the companies included CR in their annual report.
4. Using GRI guidelines for CR reporting is very common
 - Some countries have CR reporting compulsory, some do not. Only few have strict requirements for it. Therefore, using GRI guidelines has become very popular.

Even though CR reporting average rating is quite high, the average quality rating of those reports is low. For a comparison, G250 reporting rating for 2013 was 93% while its quality points are only 59 out of 100. The quality of reporting is assessed by following criteria:

- 1) strategy, risk and opportunity (62/100);
- 2) materiality (66/100);
- 3) targets and indicators (68/100);
- 4) suppliers and the value chain (46/100);
- 5) stakeholder engagement (53/100);
- 6) governance of CR (53/100);
- 7) Transparency and balance.

The observation made by KPMG states:

- G250 companies as a whole score most highly for targets and indicators. The greatest improvement needs to be made in reporting on suppliers and the value chain. (See Figure 3)

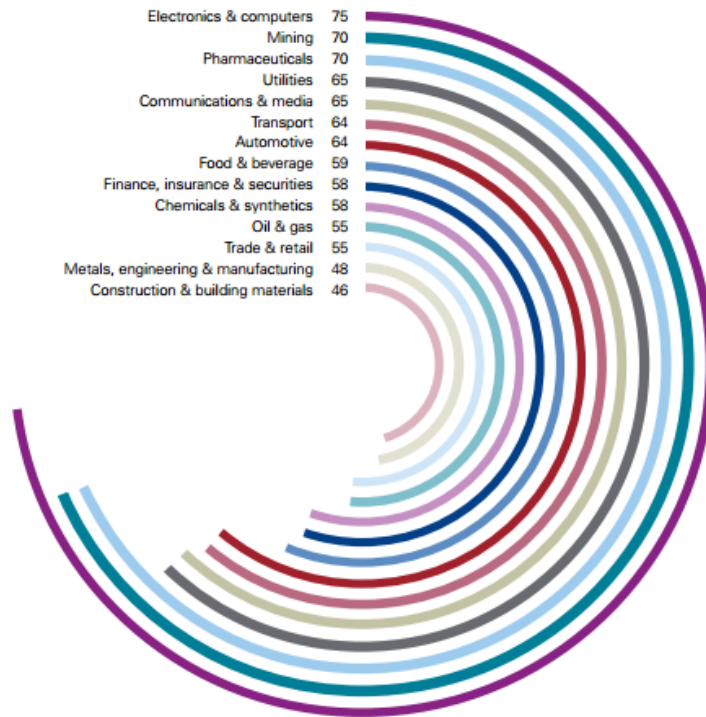


Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

Figure 3. Average quality of G250 reports by criterion (Score out of a possible 100)

Source: (The KPMG . . . 2013, 16)

- Large companies in the electronics & computers, mining and pharmaceuticals sectors produce the highest quality CR reports. (See Figure 4)

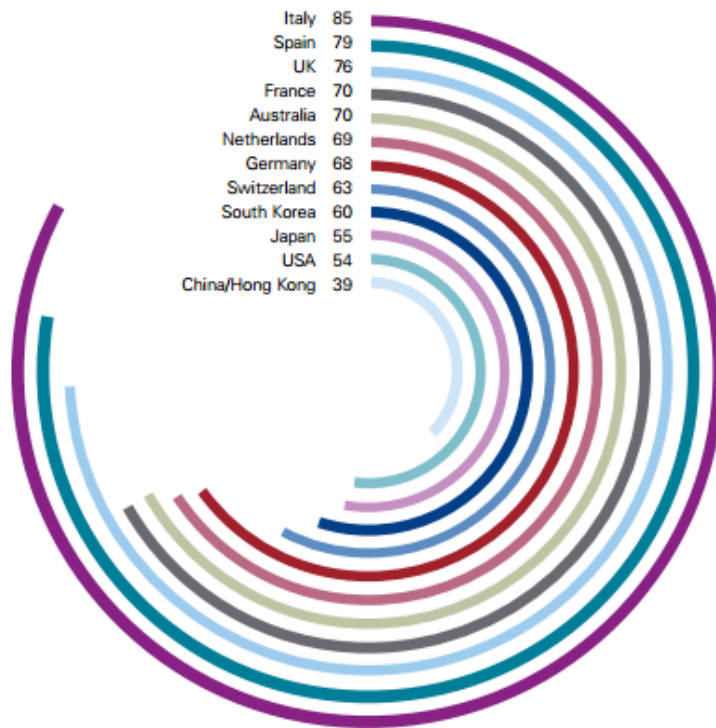


Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

Figure 4: Average quality of G250 reports by sector (Score out of a possible 100)

Source: (The KPMG . . . 2013, 15)

- Large companies in Italy, Spain and the UK lead the world for the quality of CR reports.
(See Figure 5)



Source: KPMG International, The KPMG Survey of Corporate Responsibility Reporting 2013, December 2013

Figure 5. Average quality of G250 reports by country (Score out of a possible 100)

Source: (The KPMG . . . 2013, 17)

- European G250 companies achieve the highest average quality score for their CR reports at 68 out of 100. This compares with average scores of 51 for companies in the Americas and 48 in Asia Pacific. (See Figure 5)

1.5.2 The KPMG Survey of CR Reporting 2015

This subchapter is based on the information received from The KPMG Survey of corporate responsibility reporting 2015. (Currents of change . . . 2015)

In 2015, the rate growth of CR reporting has significantly decreased, although it became obvious that it is already a standard practice.

Average rate for N100 is 73%, while for G250 is 92%. Such a low increase in the N100 rate is explained by the fact that KPMG has included 4 new countries into research with relatively low rates.

The main driver for CR reporting continues to be legislative: there is a growing trend of regulations requiring companies to publish non-financial information.

Over past two years, the leader in CR reporting has changed. Now Asia Pacific region has a leading position with 79%. In America region, the rate has also grown up, while in Africa region it has dropped quite significantly. (See Figure 6)

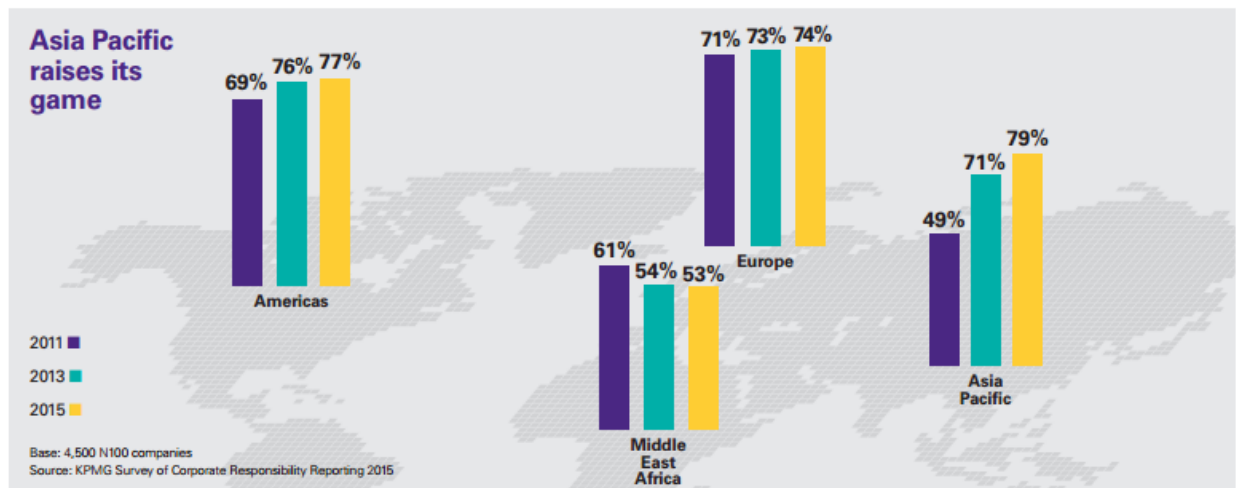


Figure 6. CR report rating by region 2015

Source: (Currents . . . 2015, 31)

While most of the countries and most of industrial sectors increase CR reporting ratings and quality, few sectors are left much behind. (See Figure 7)

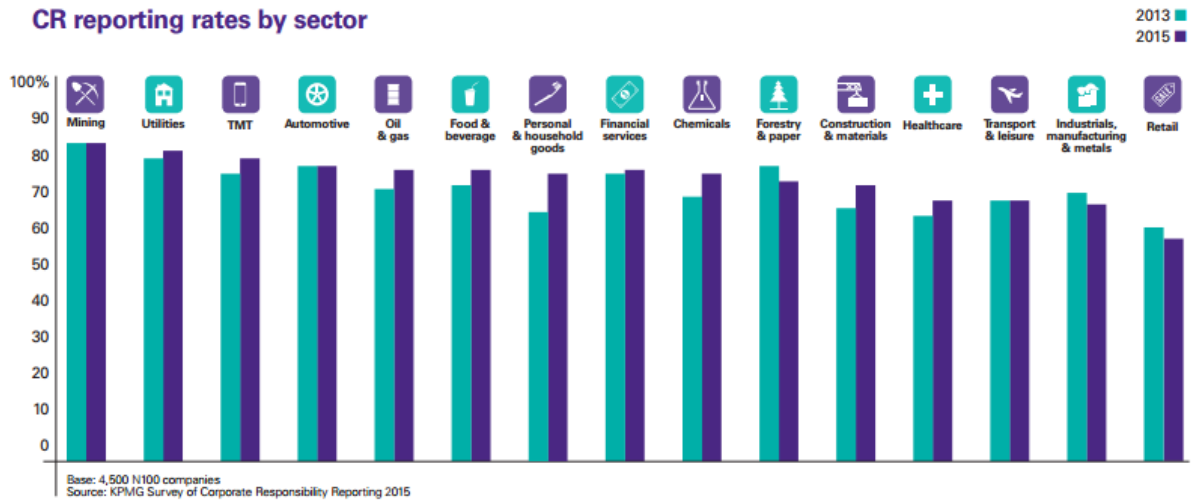


Figure 7. CR reporting rates by sector

Source: (Currents . . . 2015, 34)

On the other hand, quality of CR reporting despite good predicts of KPMG did not grow up. (See Figure 8)

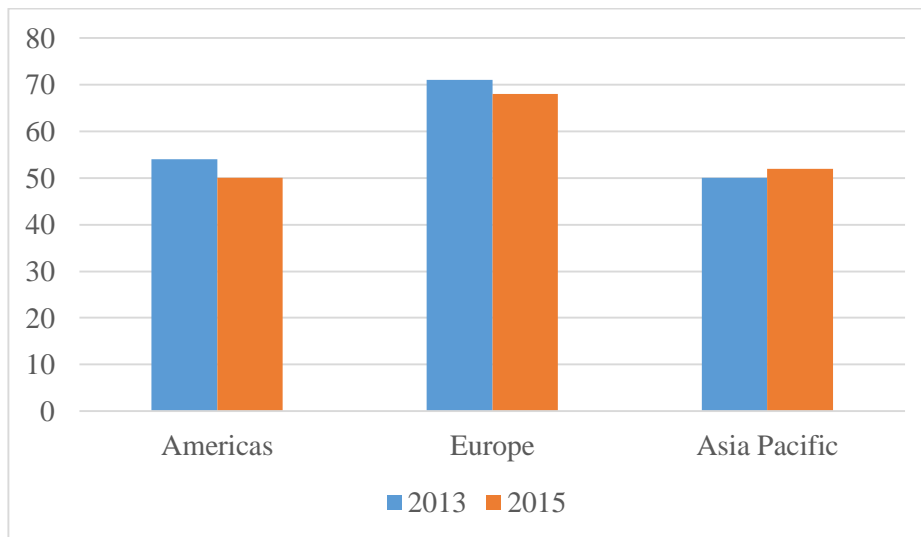


Figure 8. Quality scores by regions 2015

Source: (Currents . . . 2015, 26)

As it can be seen from the data, CR reporting concept develops rapidly with years. It becomes more popular as well as more adaptive to current economic situation in the world. Even though there are very impressive numbers regarding popularity of CR reporting, it is still clear that the quality needs to be improved.

As CSR reporting is one of the main reports to audit, it is possible to say that social audit itself does not face many limitations. Most of those companies that prepare CSR reports are obliged to conduct some sort of social audit. The main task for social auditor is to check if information in the report is correct and is presented in accordance to social activities of the company.

1.5.3 Modern reasons for CSR reporting and audit

More and more countries make some mandatory requirements for specific types of companies regarding their impact to society. What do they try to achieve with those social requirements?

They are trying to control (Carrots . . . 2013, Patnaik 2012):

1. If the company follows the environmental requirements, like emission level
2. Accountability, transparency and governance of the company
3. Unemployment level
4. Corruption

On the other hand, many companies conduct social audit and social reporting without any requirements. There are some positive and negative aspects of social audit and social reporting which make or does not make social audit and reporting interesting for the company.

The benefits of CSR reporting are (Price 2012 and The benefits . . .):

1. Building trust
2. Improved processes and systems
3. Progressing vision and strategy
4. Reducing compliance costs
5. Competitive advantage
6. Positive brand awareness

7. Increased employee satisfaction
8. Improved community relations
9. Corporate accountability

Negative aspects of CSR reporting are following (Wolinski, Coates 2015):

1. Efficient use of resources is likely to be reduced if businesses are restricted in how they can produce and where they can locate. This might lead to higher prices.
2. Socially responsible policies can be costly to introduce. International competitiveness will be reduced if other countries do not consider externalities and social responsibility, and therefore, produce more cheaply.
3. Stakeholder groups tend to have differing objectives and they are therefore unlikely to agree on what is socially responsible behavior.
4. Social responsibility may be just a passing fashion and no one can be sure of the value to company of being social responsible
5. If the economy is generally doing well, managers feel able to look at intangibles such as social responsibility. During a recession, however, they will look more at profits and survival, even if this mean taking little or no notice of social responsibility
6. If something is important to society at large, it can be argued that the government should pass laws to ensure that everyone acts responsibly.
7. It can be argued that social responsibility is just an extension of company being market orientated. In other words, because consumers want enterprises to act this way, companies respond in order to maximize their profits. According to this view, companies are cynically using the idea of social responsibility as a method of marketing their products, and will use the idea only for as long as it allows them to extend the product life cycle.

Those positive and negative aspect of CSR reporting gather together main activities of CSR. (See Figure 9)



Figure 9. Main groups of CSR activities

Source: (Catalogue . . . 2005)

Companies decide to conduct social audit or prepare CSR reporting due to their own reasons. However, if is not required by the government, social audit and CSR reporting are usually used as a marketing tool to increase popularity as well as loyalty to the brand or product.

2 EMPIRICAL RESEARCH FINDINGS

In this part of the paper, the Author introduces the results of the research that was made in order to find out the awareness of social audit concept in the public.

2.1 Method description and sampling

The questionnaire was made and distributed among students of Tallinn University of Technology. TUT is a university with wide range of students from different countries. Therefore, Author has gathered data about awareness of social audit concept of students from many countries as well as working and not working students. To see full questionnaire see Appendix 1.

In the survey, 81 people participated. Only 14.8% of people know what social audit is. More than 51% never heard about such a concept. (See Figure 10)

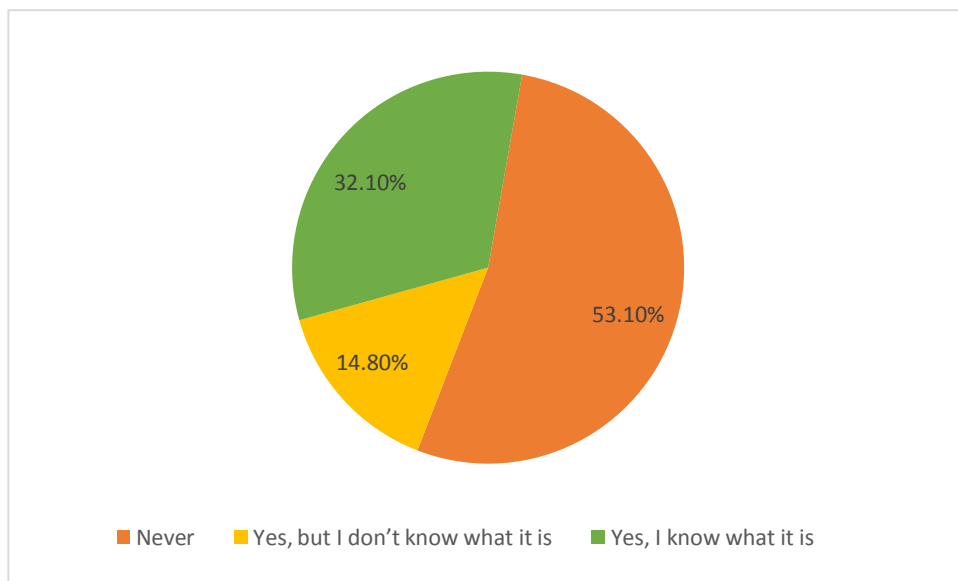


Figure 10. Summary of the answers to the question: Have you ever heard about social audit?

Source: (author's)

From the participants who knew what social audit is 75% were students, 16.7% were employees at consultant companies and 8.3% were employees in financial department of the companies.

People who consider themselves as employees rather read about social audit somewhere (66.7%) or studied at university (33.3%).

For students, the source of information is more diversified. (See Figure 11)

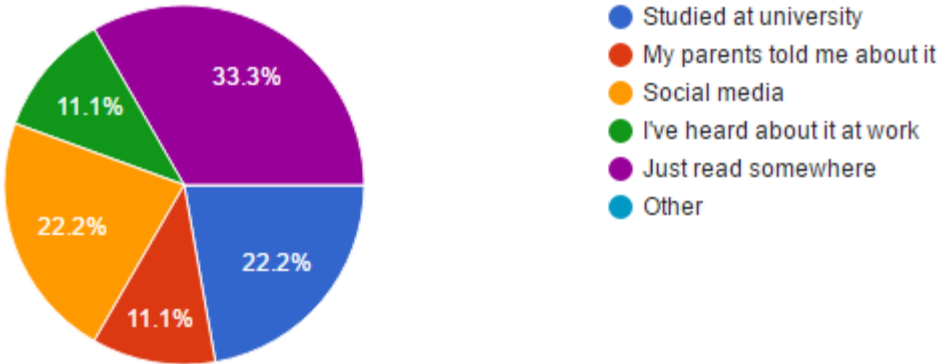


Figure 11. Summary of the answers of the question for students: How did you get to know about social audit?

Source: (author's)

33% of participants that know about social audit do think that audit should be compulsory in every country. (See Figure 12)

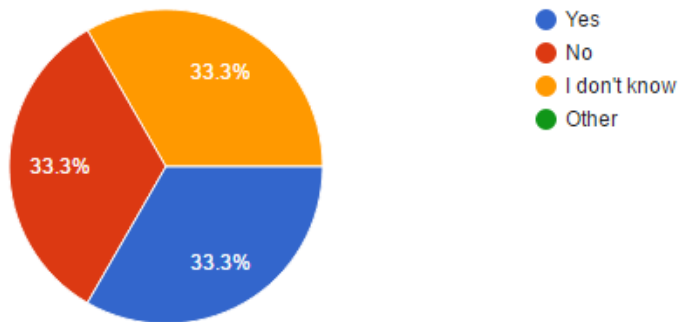


Figure 12. Summary of the answers to the question: Should the countries consider social audit to be compulsory.

Source: (author's)

Mostly people think that countries make social audit compulsory when there is some company that makes good that is noticed by the others. It is a prove that mostly people, even if they know what social audit is, do not know the current situation and reasons behind publishing social audited reports. (See Figure 13)

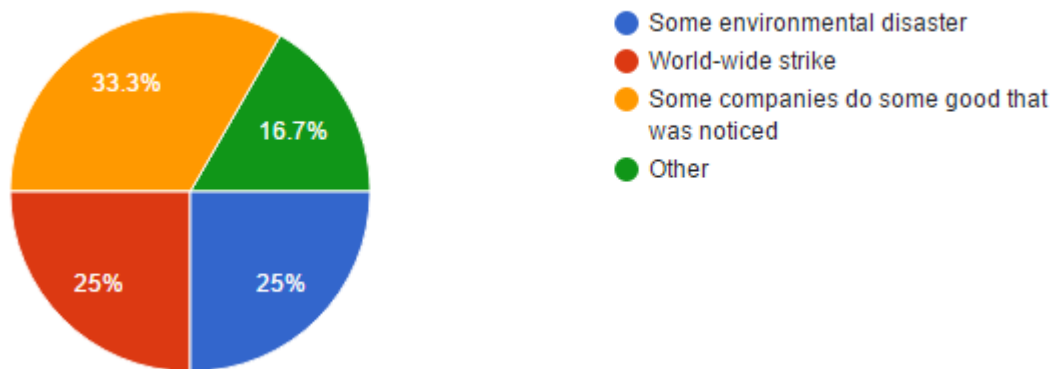


Figure 13. Summary of the answers to the question: What should have happened to make countries think of making social audit compulsory?

Source: (author's)

Employees mostly do not have strong opinion if social audit is important. Only 33.3% stated that social audit is important.

However, students mostly agree that social audit is important. (See Figure 14)

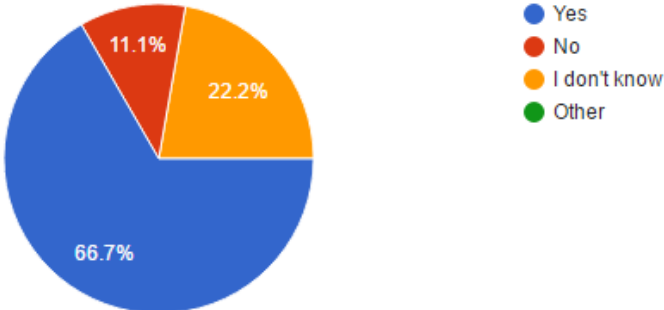


Figure 14. Summary of the answers to the question for students: Is social audit important?

Source: (author's)

Employees mostly did not see any social report or presentations (66.7%)

However, presentation is among most interesting versions of social audit for students. (See Figure15)

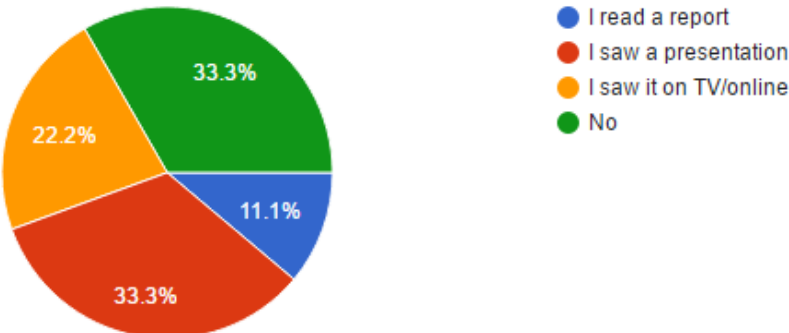


Figure 15. Summary of the answers to the question for students: Have you ever read social audit report or any other presentation of it?

Source: (author's)

To sum up, quantitative research showed the following:

1. The majority of people never heard or do not remember what social audit is. However, from the answers gathered from the question “What social audit could be?” we can make a conclusion that the definition of social audit brings slight understanding of what it could be. (see Appendix 2)
2. Social audit is not studied at university as part of curriculum on the Bachelor level. However, some students get to know about the concept from additional literature or from other sources related and not related to their studies.
3. The majority of those who is familiar with the concept think that social audit is important. However, those few who actually saw or read any form of social audit report agrees that such reports are easy to read but not very interesting. They agree that such a report in order to be interested to the public, should contain important information as well as be clear, easy to understand and graphical. (See Appendix 3)

2.2 Research findings

Together with information gathered using questionnaire, the author had interviewed people. The whole public was divided into three groups, a person from each group was chosen, and interview took place.

The first group are those people who definitely know what social audit is and who work with it – auditors etc. The working auditor from Belarus who is also a partner in an audit company in Estonia and lecturer at University was chosen.

The second group are working and not working people. Just graduated from Tallinn University of Technology who works in insurance company was chosen.

The third group are self-employed and owners of a company. The owner of the company that works with stocks and bonds was chosen.

Brief results of interviews are presented in this chapter.

Recently graduate student working in insurance company stated that social audit is not really a subject at university even when studying business administration. It is not that easy to see social audit reports everywhere, however, if one is looking for them he will notice. They are not very visible for potential customer unless they are used as a marketing tool. Publishing reports on the webpage of the company or write some article about it in a newspaper or a magazine might be a good marketing tool, however the best one is probably the short description that is placed on the package itself.

Mostly, how well you can use social audit as a marketing tool as well as should it be compulsory or not really depends on the country and how much people in it concern about society.

Personally, she thinks that if a product is among interests of the person he might consider to make a decision based on the social advertisement. However, it depends on the country. She would consider buying a product if it is giving a chance to help others. (Full interview is in Appendix 4)

Owner of the business has a strong opinion that social audit is quite useless. Unless it is not conducted everywhere with all sized companies and with a specific ranking. Social audit nowadays gives the most benefits for a huge company that can spend a lot of money on charity. While smaller companies that spend more profit percentage wise are left behind. He thinks that social audit should not exist as an audit. If somebody wants to conduct specific social audit for the internal purpose of the company on his free will, there is no problem with that. However, making it compulsory, when there is no exact framework to use worldwide and when it is very unclear what kind of result social audit should give, is a bad idea.

Personally, social advertisement will not affect his purchasing decision but he is aware that in general it increases sales. (Full interview is in Appendix 5)

Knowing a lot about the topic the **auditor** provided the author with understanding that it is normal to conduct social audit for internal purpose of the company. However, it should not be called audit at any point because audit is evaluation, and nobody can really evaluate if the company is doing good or bad things from social point of view.

On the other hand, she also thinks that social audit and the idea to make it compulsory is the attempt of governments to put social issues to companies' shoulders. The demand for it is artificially made while the purpose of it is absolutely marketing.

One can easily count how much money was spend on a specific social program, but it is difficult to say if the program is good or bad. Everything has two sides. And making a third party evaluate from behalf of society is a bad idea. The world has changed during last few decades. In addition, people stopped making fair forecasts for the long run when it is about social aspects. Something that is good today might be bad tomorrow. (Full interview is in Appendix 6)

3 ANALYSIS AND DISCUSSION

In this chapter, the author analyzes theoretical and empirical findings as well as makes some suggestions for the further development of social audit.

Social audit as well as corporate social responsibility reporting were analyzed by the author from a theoretical perspective. Since 1950s, the concept of social audit was developing, many researches were conducted in order to find out the best possible framework for social audit. It happened to be difficult, as 60 years of research did not answer many questions that were discovered in 1970s. Usually, social audit is based on CSR reporting previously conducted by the company. Therefore, it is possible to say that social audit quality depends on CSR reporting. Many companies around the world conduct CSR reporting based on GRI framework, which includes many aspects of company's life. Therefore, it is possible to state that answer to the main question from 1970s: what to include in social audit, was eventually found. Other question asked by researchers are more difficult to answer.

Social audit is a very interesting and controversial concept. Not everybody agrees that such a concept should exist. Others state that the definition is wrong.

Audit means evaluation. It is not easy to evaluate social aspects of the company. The GRI framework states that social programs conducted by the company should be checked with mission and vision of the company to find out if the company is having good or bad impact to society. However, it is still not determined what to consider good or bad impact. All the activities the company could perform could have both positive and negative impact on society and environment. The company bring the third party to evaluate that impact. It brings morale aspect to place as no human can state if something is good or bad. The auditor shared this idea with the author, which brought the conclusion that definition "social audit" is incorrect and brings misunderstanding.

The author suggests changing the definition to avoid confusion.

The other problem faced by the author was the fact that in Eastern Europe region not many young people aware of social audit or social reporting concept. Social reporting has already become a trend among large or socially active corporations and many countries make parts of social audit to be compulsory. It is understood that governments try to control companies by

social audits. On the other hand, social audit and reporting bring many benefits to the company despite the fact if it was conducted mandatory or on free will. However, those benefits are still lower than they could be as public is not massively aware of the concept, how it looks like and why to concern about it.

Social audit is not studied at Tallinn University of Technology on a bachelor level, even during business programs. Same issue can be seen in many other universities in the region. However, it is advisable that social audit is briefly studied at universities to increase public awareness as well as to bring understanding that social issues are important.

In Estonia, for example, CSR forum exists. It would be interesting for students to have presentations from that organization as well as for the public. Awareness of current social and environmental situation in the country will help the future by avoiding some vital issues that could harm further generations. At the moment, social audit is more a marketing tool rather than a key to the better future as it was meant to be.

For the companies advantage it is suggested to start publishing brief information from social audit or CSR reports to be visible for potential customers. For example, publishing it on the package of the product and making some brochures, so people that come to the office could read it through.

Looking at the past and present of social audit, the author could predict that in the future the concept will become mandatory worldwide for every company. People will start paying attention to social activities the company is performing while choosing the brand to deal with. It will be driven by the idea that being social is important and every company should do it in order to still be in the market and to avoid fines. Later, the top management will become those who actually agree that being social is important, and at some point social audit and CSR reporting will become obvious regardless getting profit from it or not.

On the other hand, any audit is the matter of trust. When stakeholder or government does not trust the company and normal regular CSR report is not enough, social audit comes to place. Perhaps, one of the possible futures is that the society will come to the higher level of trustiness and social audit as well as any other audit will not be needed anymore. (Rahim, Idowu 2015)

Social audit as well as corporate social responsibility reporting at the moment is just a marketing tool. However, due to its development, it has a good path to take to bring visible benefits not only to the companies but to the society itself.

SUMMARY

The subject of social audit is relatively old for the big companies but is still very new for the public. Even if people saw somewhere any result of social audit, they did not pay much attention on that or did not recognize it as a social audit result. On the other hand, those who actually know what social audit is mostly think that presenting such information is important; therefore, using social audit as a marketing tool is a wise decision.

Many people get confused when they hear about social audit. Mostly it is because of the word “audit”. Audit means evaluating something. Many just do not understand how it is possible to evaluate social activity of the company.

In order to understand the possible future of social audit the author went through most interesting articles that were published in different magazines since 1950s. In addition, the number of questions were set for the same purpose:

1. Are potential consumers aware of the definition “social audit”?
2. Is social audit concept popular among enterprises?
3. Can social audit be used in advantage in a competitive business world?

During the empirical research process, the author gathered data using both qualitative and quantitative methods.

The research showed that social audit and as well as social reporting are widely used by enterprises, however, the public is not broadly aware about the concept. In order to use social audit and social reporting with its full potential as a marketing tool, companies need to increase the awareness level of the public.

Social audit and reporting continue to be one of the interesting topics to research in order to find out the best way to conduct them as well as to get to know who to increase the benefit from it.

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APPENDICES

Appendix 1 – Quantitative Questionnaire

1. What is your age?
2. Have you ever heard about social audit?
 - Never
 - Yes, but I do not know what it is
 - Yes, I know what it is
 - Yes, I am involved in it as part of my job
 - Other
3. What is your work status?
 - Student
 - Employee at consultant company
 - Employee at financial department of the company
 - Other
4. How did you get to know about social audit?
 - Studied at university
 - It is part of my job
 - Some of my colleagues are conducting it
 - Just read somewhere
 - Other
5. Do you agree that social audit is important?
 - Yes
 - No
 - I do not know
 - Other
6. Have you ever read social audit report or any other presentation of social audit results?
 - I read a report
 - I saw a presentation

Appendix 1 Continued

- I saw it on TV/online
 - No
7. Was the social audit report interesting and easy to understand?
- It was interesting but not easy to understand
 - It was easy to understand but not interesting
 - It was interesting and easy to understand
 - Other
8. How do you think, should the countries consider social audit to be compulsory?
- Yes
 - No
 - I do not know
 - Other
9. How do you think, what should have happened to make countries think of making social audit to be compulsory?
- Some environmental disaster
 - World-wide strike
 - Some companies do some good that was noticed
 - Other
10. In your opinion, how the best presentation of social audit results should look like to be interesting to the public?
11. Using your imagination, what social audit could be?

Note: Those who answered “Never” on question 2 went directly to question 11 skipping all the other questions.

Appendix 2 – Answers to the question: “Using your imagination, what social audit could be?)

Something social, cooperation, performance or something
Something
Auditing of personal social live and it affect to the job
Some kind of social investigation
Checking government's accounting to see if the money has really been spent and not used for corruption or something.
Perhaps it show how much effort has been given to society. Charity, volunteering.
Probably has something to do with auditing/checking
No idea
Public questionnaire?
Inspection of the society's health
Can't even imagine
Questionnaire
I don't know what is it
Audit which is social
Maybe it has something to do with supervising an institution's work in the process of communication. I did guess, but normally I would just Google it and find out in seconds...
Cage
Series of agencies which are responsible to audit some social affairs
Something that describe all the factors of social existence
How socially responsible the somebody/thing is?
Study about people's behavior
Something related to horses
Исследование аудитории сервиса по возрастным и социальным критериям
Large questionnaire
Sociological research between different social groups.
Do not know
Sth to do with reporting
Organization
Is a process of reviewing official records and determining whether state reported expenditures reflect the actual monies spent on the ground
Kuinka hyvin tulet toimeen muiden kanssa
Have no idea
I dunno
? no idea
A way to get laid
Some investigation?
Controll
Testing of social skills
Reviewing of how our society lives

Appendix 2 Continued

It makes me think about analyzing statistical data about society
No
Like a usual audit, but held by randomly selected clients, to improve the company not only in the legal way, but for the like of potential/existing clients as well
Social audit
Learning about social activities, human behavior
Sum of money spent on something concerned with social needs
Audit organized by society, because of lack of trust to authorities.
Some accounting thing
Control of peoples wealth being (level of education, health care and so on)
It is a process of reviewing some records
Исследование населения, качества жизни (зарплаты и здравоохранение) населения, вопросы эмиграции.
Sort of social control?no wonder really=)
I have no idea.
Control
Opinion research
Social audit can be activity audition or some reports audition.
To make a check how productive people work
Method of improving some group's ethical and social performance
People's opinion about exact questions
Conducting surveys in order to understand trends in the society smt like that
Audit of personal social skills
Don't know
Opening of company documents, plans, strategies to group of random people to see their reaction(kind of view from the outside)
I don't know
Interview on your sociability
I don't know
I have no really idea
Reviewing of smth
Name of the song?
Never

Appendix 3 - Answers to the question: In your opinion, how the best presentation of social audit results should look like to be interesting to the public?”

A cool pie chart with minimal information :D People rarely care as much as highly educated think they do.
There have to be something interesting there or some illegalities that would interest public.
Understandable and be presented clearly
Dont know
Well presented
TV or newspapers articles
Lot of diagrams and words :)
Don't know
i have no idea
Info graphics would be interesting enough for people to spend time on
Good video

Appendix 4 – Transcript of interview with working graduate

How did you get to know about social audit?

I got to know about social audit from the lecturer at University when I was writing my Bachelor thesis on the topic of corporate social responsibility.

So you don't study this topic at university? It was you personal willing to write about CR?

Exactly. We haven't studied it anywhere.

And you didn't know anything about social audit before your bachelor thesis?

No.

Have you ever seen results of social audit? Some reports, presentations?

Yes, when I was writing my thesis about CR in banking industry in Estonia I have seen few reports published by some banks in Estonia, like SEB bank, for example.

Have you ever seen any social audit presentations that were made for a commercial purpose?

Well, I might have seen them but didn't really pay attention. All that I remember was related to banking industry.

In your opinion, how social audit report or presentation should look like to actually be visible for potential customers?

Well. Such a report should definitely be placed on the webpage of the company in the section of corporate social responsibility. It might be the web page or in form of presentation, maybe some brochures which are placed in the company's office. So people who are interested could take the brochure and read about it.

Should they broadcast such things on TV or put in newspapers, for example?

I don't think that TV is a good place to broadcast such things. Maybe only some special programs which are devoted to this particular topic. They might think about newspapers or magazines in form of articles. But thinking about the best way how to present it, I think it should be the webpage and brochures.

So you say that such information will be more interesting for customers who already know about a product and use it? Not to everybody?

Appendix 4 Continued

Well, another way of putting social audit results can be also the package of the product itself very shortly of course. Also like my company does, they can send postcard for some celebrations like New Year saying that money that they could spend on the present went to disable children.

The answer to the question if it should be visible only to existing customers or also to potential ones depends on the country and on the product itself. In some countries it already exists that not many people will buy your product if you don't publish CR report. In other countries, this kind of marketing could be seen as being too aggressive. Maybe putting some information about CR on the product's package is the best way to advertise it.

Let's imagine the situation. There is a company that you never heard about before and you never heard about the product they are selling. They start broadcasting some advertisement on TV. They talk about product and so on, but they also mention that they spend 5% of the money they get to help, for example, disable people. Will it affect your decision in considering this product as a good one or not?

For me personally it will affect. Because I think about such people that need help. And I will be grateful for the opportunity to help them in any way. I would be happy to buy such a product.

And it doesn't matter what product it is?

Well. If it is something that I don't eat or don't like then I won't. But for example, milk. Among the variety of milk to choose from I would choose the one that would give such an opportunity for me.

Let's have another example. The product is expensive. Let's say, somebody made an innovation. There is no such product on the market at all. Nobody knows about it. The product is not among your prime interest, it is not the one you would love to have right away. But is not totally out of your interest. They broadcast it on TV. Let's say product cost 1000 EUR. But they say on TV that 5% of those money will go to help disable children. Will it affect your decision in this case?

Appendix 4 Continued

Yes. In this case I would consider. Of course it depends on the price. There is some willing price for any product, even for innovative one.

To conclude, do you think that social audit results should be used as a marketing tool?

It depends on the country. If it is a country where people do concern about social activities, helping children, disable people and so on, then it should be used. If people don't participate much in such activities, then it won't help much as a marketing tool.

Should social audit be compulsory?

I think you cannot oblige companies to make social audit if people in the country do not agree that it is important. Therefore, government should research in order to find out if people care much about those things. If the government oblige small and medium companies they probably should compensate the expenses because it is quite a big additional cost that not everybody can afford.

In some countries it you do well from social point of view, government reduce your taxes. Is it a good tactic to increase social input from the companies' side?

If the amount of money company saves with such tax reduction is bigger than amount of money they spend on social activities, then it definitely worth it.

From the marketing point of view, what should be shown to the public?

Definitely positive things like helping children and so on. Also, some environmental issues that are solved by the company.

What about company lever social activities? Like building a kindergarten for employees, for example.

It is a good advertising tool for potential employees, but I don't think that it will work for potential customers. Something that everybody concerns about should be shown.

In many countries some social activities are regulated by the government. Like the acceptable pollution level, or that every employee has a parking spot. Some researchers say that such things that are regulated by the government should not be included into social audit. Only those things that are done on the company's will should be presented in social audit. What do you think about it?

Appendix 4 Continued

Probably, there is not much point in social audit itself if they also consider social aspects regulated by the government. Companies time to time have those checks if they follow the rules. Why to conduct social audit on the same thing?

Appendix 5 – Transcript of interview with owner of the business

Do you know what social audit is?

Yes, I do. It is some kind of social impact evaluation.

How did you get to know about social audit?

I think I got to know about it during some class at school. Maybe environmental economics. But I might have heard about it before university.

How can somebody evaluate social impact?

It doesn't really matter as social audit is propaganda in a way. The idea is social audit is not really mandatory is not every single company in a particular company does it. Plus social audit is beneficial only for the company itself. Basically it is a marketing tool for the company. From the audit point of view it doesn't really make any sense.

The point of social audit is to have some positive reaction from some party.

Have you very seen any social audit report or presentation?

Most likely I have but I didn't pay attention to it.

Have you ever seen any social audit result that was used for commercial purpose? Like on TV.

I do remember one TV commercial. I read some report that included social audit results. I also saw some promotion on websites like stating that they gave 5% of profit to children. Quite many of those.

How social audit report or presentation should look like to be visible for and to be remembered by potential customers.

I think the more transparent company is the better it is. From my perspective it should be clear and easy.

Will social audit presentation affect your purchasing decision?

Personally it will not. But I know that it increases sales.

You as an owner of the company would think if the government says that you also need to conduct social audit?

Appendix 5 Continued

I would say that it is absolutely useless. I would say that purpose of social audit is to improve public relations image instead of trying to do good. Of course there are companies that actually want to go social impact, well, they will do it anyways regardless social audit.

Plus those companies that see positive reaction on sales from the customers when company conduct some social program, they will keep doing it regarding social audit.

Social audit should be for everybody or not be at all. I would say that it is a good idea to have social audit conducted using same framework but as a result of it should be ranking. Nowadays social audit is beneficial for big corporations that can spend huge amount of money on charity while small companies are not considered. If we have huge company that gives 5% of profit to charity which is few millions and a small company that gives 10% of the profit which is 10000. Nowadays the beneficial party in this case would be the big company. However, it should be the small company.

However, I still think that social audit is quite useless. It just doesn't go anywhere. It is simply a marketing tool for the company.

The idea is to make companies more transparent. This is a positive thing about social audit. However, social audit as it is nowadays is useless.

In a way social audit should not be here at all. Or it should be conducted everywhere with rankings. The ranking might be local or global or both.

It was suggested that social audit doesn't include those things that are required by the government. What do you think?

I think that those things should be included in the audit because it brings transparency.

Appendix 6 – Transcript of interview with auditor

As an auditor, what do you mean by social audit?

I think that social audit is artificial topic. It is artificial in a sense that government artificially makes it. Social aspects originally are the issue and responsibility of the government, but nowadays governments make it responsibility of companies.

As a lecturer at University, I teach the theory of taxes. And studying the material I face that the issue of taxes is to convince taxpayer to pay those taxes. I am trying to protect taxpayers and therefore I am trying to cover them from social responsibilities. From my 25 years of experience, I can see the development of social audit. It becomes more and more artificial. It is not an inner essence of the business to make those social aspects happen.

What if the company makes something good happen, let us say for the environment. For example, cleaning polluted areas more than they obliged by the government. Shall it be actually visible for the public?

Let us say I am the owner of the company. And I have free money to spend somewhere. And I decide to clean polluted areas. It is done by my own will, and it is not subject of audit. It is more a morale issue than anything else is. And it cannot be in audit report.

But the company could use the information gathered in the benefit of the company. To increase brand loyalty and as a marketing tool.

It is again absolutely a moral issue. For me the good the company does from the social point of view cannot improve the bad it does while operating. For example, the owner of World of Tanks, the Belorussia entrepreneur became one of the richest people in the world. Obviously, he and his company has enough money for charity and solving environmental problems but it does not overlap the bad the game is doing for children and not only for them. It is almost same as drugs.

Having social audit for such a company will not change its essence. For me it is more important how bad the company and product is for a person and for environment than money they give to charity.

If the company and owners really want to be involved in those social events and they do not do it only for some benefit, then they will give money to charity, for example, without involving

Appendix 6 Continued

public in it. They will not make a huge thing out of it. And if they do not want any benefit, they do not need social audit.

It is obviously a huge additional cost for the company putting money in social events and conducting audit. Question is if social audit actually helps the company to increase the profit. And increasing profit is the main goal of any commercial company.

Social audit reports is sort of advertisement anyways.

Social audit includes not only environmental issues and charity but also social benefits that company gives to employees. Like building the parking for employees, for example.

It is just part of the social package that any employee receive together with salary. It is just basic employee cost and it is mentioned in financial audit. Anything the involves money in the company, per say anything, is mentioned in financial audit. Why do you need a special audit for social event, which not everybody even sure how to conduct?

Anything has good and bad side. And if you try to evaluate it not from money side, than it is some kind of morale side. And how say for sure if it is good or bad? Is a parking for employees good or bad? Yes, it is good that employees do not need to look for parking and pay for it. Maybe it will reduce the statistics for being late. But on the other hand, more employees might start using cars. It will lead to less parking and public transport profit that is used by the government. Plus statistically people who use cars are less healthy. So who can actually say that parking is a 100% good thing?

It should not be evaluation of charity but it should be evaluation of risks if the company does not do something.

Audit is evaluation. Putting money in social events is in financial audit under a graph of profit that is not included in tax calculation.

In many countries social activities is the reason to reduce taxes.

In the case when company is putting money into charity only to reduce taxes it is just a simply tax planning. Nothing else.

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So it will not affect your decision if you see some result of social audit used as a marketing tool.

It is still a morale aspect. World has changed a lot and nowadays it is very difficult to say what is good and what is bad. Not many actually see the result of their actions in the long run. It will not affect my purchase decision.

Social audit results is a simple advertisement. And I think it is a bit too much when you need third parties, auditors, to advertise you.

The idea of audit is to make a conclusion. But what kind of conclusion you can make in social audit?

They suggest comparing social activities with companies mission, goal and so on. So if the result is positive then the company is doing well, if negative then not so good.

The goal of commercial company is to increase profit mostly.

I have some inner protest about it.

I do have concern mostly about government's lack of responsibility. They make social activities artificially tied to companies. Or you will not get tax reductions or you will be fined and so on. They put the government's responsibilities on companies' shoulders.

I also do not agree that environmental issues are social issues. They are financial responsibilities for future generations. It is responsibility of the government to make such laws and regulations to make happen this and that. When those this and that are strict and well understood.

More and more companies make social audit compulsory.

Well, as I said environmental issues should not be subject of social audit as it is simply resource usage. It is government's responsibility to make such a law to make the environmental situation better.

Do I understand correctly that you are so much against the idea, but totally against calling it social audit?

Appendix 6 Continued

Definitely, if they want so much to make social audit then do it. However, if you do not call it social audit then you do not need to make evaluations of social and morale aspect. If you do not need to make that evaluation then it is basically part of financial audit.

Social audit lately becomes more and more popular not only because of the regulations but also as a competitive tool. Do you think that it was just somebody who started this snowball effect without really a reason?

I think that it is artificially made demand. It was made by those who actually make money out of it.