

**Business Ethics**  
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**Lecture – 20**  
**Assessing ethical performance**

Now, we will be discussing assessing ethical performance, which is the third step of understanding how the business ethics management is being done by the particular organization. So, when we talking of assessing business ethics performance, there has not been any common practices that are been followed throughout the different organizations. And as a result of that in an effort to assess the business ethics performance, different organizations are focusing on different types of things done and they are trying to see whether they are doing their performance where in those aspects.

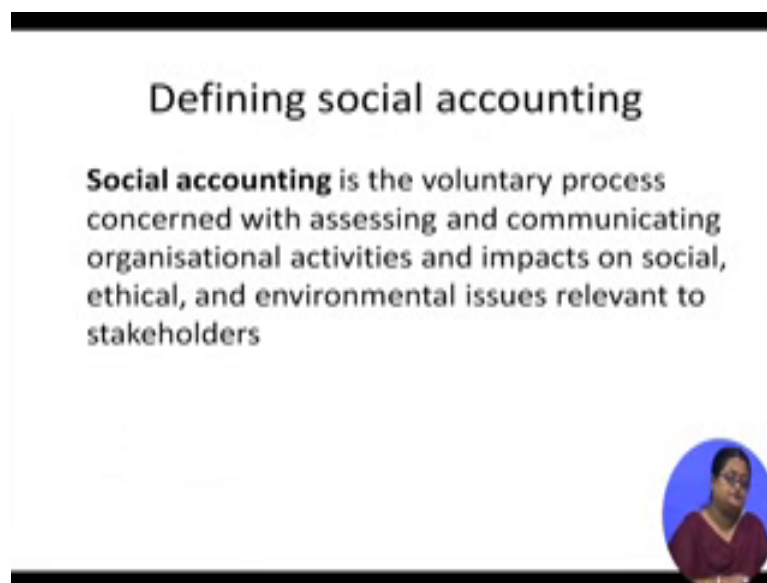
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The different approaches that have been taken are can be classified under the broad different headings. The different efforts taken by the organization to see like whether they are performing in an ethical way can be grouped under some different headings. Like approaches which we focusing to its studying, whether employees are following the rules and regulations properly, whether business is giving life fair which salary is following the fair process in performance management and all. All these type of things have been can be clubbed under the way of ethical area of assessment

The way those for focusing on the impact on natural environment that approach is called environmental approaches of assessment. Those who are focusing on broad social implications on different stakeholders of the society at large, and other stakeholders, they are focusing mainly the society and the societal problems, they have taken a social way of looking at the problem. Those who are focusing on the triple bottom line like the economic prospective, the environment prospective and the social prospective together they are focusing on the triple bottom line, because of this variety of the different ways taken by the organization to see like they are following the business practices in a proper way or not. So, and there is no general like listed practices. Here will be focusing on social accounting which is a generic term and which to some extent covers all the approaches as listed above.

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So, to define social accounting, social accounting is again a voluntary process concerned with assessing and communicating the organizational objectives and practices activities and impacts on social, ethical, and environmental issues and relevant to the stakeholders. So, when we talking of social accounting, it is voluntary process; the word voluntary process is very important, because still now it is not mandatory it is main legally mandatory that the organization needs to do a social accounting. So, social accounting is a voluntary process taken by the organization concerned with the assessing and communicating organizational activities and its impacts on social, ethical, and

environmental issues where we share relevant issues which are relevant to the stakeholders.

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So, it can be taken like if you remember earlier, we already discussed about the involvement of the stakeholders in through the form of communicating with the stakeholders by entering into a dialogue with a stakeholders, communicating with a stakeholders, arranging programs for mutual interaction of the stakeholder with the form. And accumulating their suggestions helps in the during the preparation stage of the like codes of ethics helps in the stakeholder involvement.

As social accounting is for meeting the more or less the needs of the demands of the stakeholders, the expectations of the stakeholders from the organization is very important to have stakeholder involvement also in the social accounting process. While fixing up the standards, while fixing of the action of the steps, while fixing up the may be areas or focus also. So, we will just take an example by of social accounting established by the body shop. First, it starts with the policy review, and then it and this policy review is developed in with relevant to the stakeholder dialogue. And the stakeholder dialogue will help to develop some alternative some ideas from which the existing polity as to be checks like whether it needs to be improved whether it is present whether something needs to be included or not, so policy review.

And then to among the audit scope means to be what level of investigation needs to be done of things which are present, absent needs to improve how it is performing not performing so determination of the audit scope. Agreement standard and performance indicators, so this as to be agreed with the stakeholders, so what if done will qualify to be I am doing my work well. So, this if you understand is done in consultation with the stakeholder's agreement of standards, and performance indicators this is reached in consultation with the stakeholders.

Then the survey also the stakeholders are done. So, that they can express the views on these stakeholders are both internal and external stakeholders, so the organization they can tell about the things met, standards met, standards not met; in the expectations. It goes through a process of internal audit also, where feedback is taken from the people within the organization about how the system is functioning, and where it needs to improved in terms of policies, practices and programs.

Helps in next is preparation of accounts and internal reports. So, what is the accounting for the benefit and the harm cost benefit analysis, and internal reports supporting the accounting part or a qualitative data qualitative interview data, because in many cases quantitative data is not possible to get. So, supporting the claims that the organizations is following an doing ethical performance, then agreement of objectives to for the like next few things which needs to be done verification of the report.

And then it gets finally, the comes to the public domain, where all people can get to see what the organization has actually done or aims to do; and again it starts a stakeholder dialogue. So, this is a cycle process, which goes on and on. And in that way, so it gets like better and better of each day; and it improves each day and the social accounting becomes proper.

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## Why do organizations engage in social accounting?

Both practical and moral reasons. Four main issues:

- Internal and external pressure
- Identifying risks
- Improved stakeholder management
- Enhanced accountability and transparency

Disincentives for social accounting:

- Perceived high costs
- Insufficient information
- Inadequate information systems
- Lack of standards
- Secrecy
- Unwillingness to disclose sensitive or confidential data

So, question is, why do organizations enter into social accounting? First, of course, it is the internal pressure and also external pressure from the different stakeholders to know like what business the organization is doing, what it is yielding, what it is giving back us return, how it is doing, whatever it choose an is an ethical or not. So, there is an immense pressure from the internal and external stakeholders to know things happen in within the organization and how it is happening.

The social accounting also helps the organization the potential risk for its future coming from the different stakeholders, the barriers that may created which may hamper its business activity. This social accounting, because it involves stakeholder within the decision-making process setting up alternatives etcetera, it helps in improved stakeholder management. And of course, it increases the transparency and accountability of the organization in the mind of the people at large.

However, there can be certain disincentives also like to do these activities which is really a very huge cost to serve with the stakeholders interview them, take their views, conclude them, do research about what is happening, how it is happening. So, it involves the cost. So, and the cost is perceived to be high. Sometimes information are not fully available which hinders the reporting process. The people may not remember all thing may not know all thing, they may not be willing to tell all things also, because they will

not willing to review due to the secrecy of processes and all. So, this is insufficient information.

Inadequate information system as already told because the information is not clear not like documented properly or studied properly. So, it becomes because there is no such system in place then this accounting becomes a problem. There is some clear cut lack of standards regarding if this extend is done then it is considered to be desirable, so that lack of standard is there. So, people are assessing are not able to judge like whether it is being effective in nature or not.

So, sometime secrecy is maintained about the information within the organization. So, there is an unwillingness of sharing this information without said world in the assumption in the apprehension that each may have when if it on the image of the organization. And there is an unwillingness to share the some confidential or sensitive data with outside us, so that it may again have a negative impact, but the functioning of the organization.

(Refer Slide Time: 14:49)



**What makes for 'good' social accounting? (I)**

- Inclusivity
- Comparability
- Completeness
- Evolution
- Management policies and systems
- Disclosure
- External verification
- Continuous improvement

So, after we have discussed on the dilemma of what makes like why people apprehensive of social accounting. Let us discuss few points which make for good social accounting. First is inclusivity. What is that? The inclusivity we mean inclusion of the views of more or less all the relevant stakeholders in the report. Comparability of the result: the compare performance throughout different years of the same year with different

stakeholders. Completeness the report should be complete in the sense, which is touched upon all the stakeholders and the standards of ethics given for its relation with the various stakeholders, and what steps the company has taken to arrive at it. Evolution, what improvement has been taken through different steps, what are the time gaps after which the audit is being done to cross check with the levels of development etcetera?

Management policies and systems what are the policies and system in place to take where the manage business ethics to see things are done properly in the organization disclosure, voluntary disclosure of information of organization to share the way like they feel like in the business with the concerned stakeholders at large. External verification is being done by external auditors to come and verify how a ethical management is being done in the organization, what are the steps taken by the organization for ethics management. And there is an effort for continuous improvement on the part of the organization to improve the whole system.

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So, this schemes which are there to take care of the specific aspects of accounting are like we understand in the previous this section, we discussed like though auditing, accounting and reporting I have written in this order, but accounting is the super set of which auditing and reporting are two important components. So, if the social accounting has to be a good social accounting, so reporting has to be good and the auditing also has to be good in nature. So, and if there is certain standards which are followed according to

which the accounting or audit is done then it increases the reliability and validity of the efforts taken to manage business ethics.

So, auditing and certifying, there are certain social accountability standard SA 8000 for reporting this is global reporting initiatives. And report for reporting assurance like it is AA1000S assurance standards to be followed. So, these types of things templates the things mentioned in those and if it is followed while reporting and auditing and certifying. So, these are standard template to be put to and to follow and to see like the proper things are assessed to understand whether social performance is being done or not, whether the business ethics performance is on the right track or not, is it been done properly or not.

Next, we will move on to organizing for business ethics.

Thank you.