

**Strategic Management for Competitive Advantage**  
**Professor Sanjib Chowdhury**  
**Vinod Gupta School of Management**  
**Indian Institute of Technology Kharagpur**  
**Lecture 46**  
**Social Auditing**

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Welcome to the strategic course management for competitive advantage. In the last session, we discussed corporate social responsibility and sustainability. And we will continue with this today. And also, we will be covering social auditing. So the concepts that will be covered in today's

lecture are CSR and its applicability, spending, and preferred areas where the CSR activities should be undertaken; then, we will talk about what is a social audit.

We will talk about why firms should undertake social audits. What is the necessity for it? Can it be done away with or not? We will discuss that. we will also talk about different types and frameworks of social audit. what are the difficulties in social auditing?

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The slide is titled "14. Strategy & Social Responsibility". It lists "CSR activities Mandated by GOI (Incorporated in Companies Act 2013)". The slide includes three bullet points with handwritten notes:

- Applicability:** *Gen. Network > Rs 500 Cr, OR Sales Turnover > Rs 1000 Cr, OR*
- Spend:** *Net Profit > Rs 5 Cr in a financial year. minimum 2% of Net profit (avg profit for the last 3 years). Net profit : Profit before tax - foreign business earning is excluded.*
- Composition of CSR Committee:** *at least 3 members. one member shall be independent director.*

The slide also features a small video inset of a man in the bottom right corner and logos for IIT Kharagpur and NPTEL at the bottom.

To start with, we will go for the CSRs and activity; the CSR activities were mandatory in 2013. But before that, it was voluntary, like if somebody wishes, they can do it. First, in the year 2009, the Department of company affairs, they have compiled some CSR guidelines that were voluntary. The companies can do it at their discretion or ignore that, but it was enacted in the Companies Act in 2013, and we will be talking about that. what are there in the CSR guidelines as having been enshrined in the Companies Act?

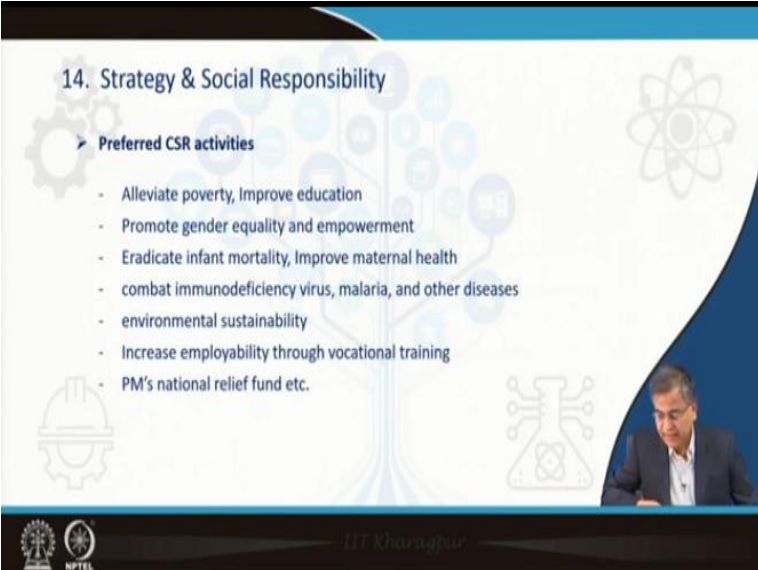
So, what are these? There are a few important things we will be discussing; one is applicability. CSR applies where all the companies have to do the CSR activities, or only the listed company has to do the CSR activities. So, all these things we will be discussing it. So, what is it? It is the applicability, in fact, that companies which are having a net worth of more than or equal to 500 crore rupees are eligible for CSR.

So, I will write it for you through companies with a net worth greater than or equal to 500 crore rupees. Sales revenue or sales turnover greater than equal to rupees 1000 crore and profit or net profit greater than equal to rupees 5 crores in a financial year. All these in a financial year. If any of these is satisfied, they have to; they are under the purview of the CSR activities and must carry out the CSR activity mandatorily.

So, how much they should spend for the CSR activities that have also been given is a minimum of 2 per cent of net profit, and this profit is considered as the average profit for the last 3 years. What is net profit considered? Net profit is considered as profit before tax and also the foreign profits; foreign business earnings are not considered here; it is excluded, and also foreign business earnings are excluded for these are the spend.

Then what are they and also specifies that there must be a CSR committee for all these. For this company's board of directors, there must be a CSR committee. This CSR committee should have at least three members, and out of that minimum, one member shall be an independent director. So this is the composition of the CSR committee, so you are clear on this. These are the CSRs rules mandated by the government of India and which have been incorporated in the companies act 2013, as I informed you earlier.

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The slide is titled "14. Strategy & Social Responsibility". It features a list of "Preferred CSR activities" under a blue header. The background includes a stylized tree graphic with circular nodes and various icons like a gear, a hard hat, and a molecular structure. In the bottom right corner, there is a small inset video of a man in a suit. The bottom of the slide has logos for IIT Kharagpur and NPTEL, along with the name "IIT Kharagpur".

**14. Strategy & Social Responsibility**

➤ Preferred CSR activities

- Alleviate poverty, improve education
- Promote gender equality and empowerment
- Eradicate infant mortality, improve maternal health
- combat immunodeficiency virus, malaria, and other diseases
- environmental sustainability
- Increase employability through vocational training
- PM's national relief fund etc.

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So, next, we go for what are the preferred CSR activities. These preferred CSR activities are to initiate a program that will alleviate the poverty in a certain area and improve the education

standards of the students and children in those areas, especially in the remote areas. All the rural areas where there is not very good infrastructure for schooling and all.

So, you improve that and alleviate the poverty, hunger and, all should be eliminated, you can take the programs on this. It also talks about promoting gender equality and empowering women; you can initiate such programs. So, that will promote these aspects and empower women, and all will benefit society as a whole.

Also, it would be best if you undertook projects where infant mortality should be reduced and try to eradicate that and improve maternal health, because child death and all are huge in our country, so, to improve on these aspects. Also, you can take the programs in the rural, deep rural areas or even in the slum areas in the urban cities and all that combat immunodeficiency virus, malaria, and other diseases. In many parts of our country, the mosquito and the diseases borne by mosquitoes are huge.

So, you can take some programs on these lines which will help the cost incurred on health by those people in that areas and all. and the cost incurred by the government is huge in those areas; it will benefit society as there will be healthier people in society, fewer diseases in society and the productivity of society will improve.

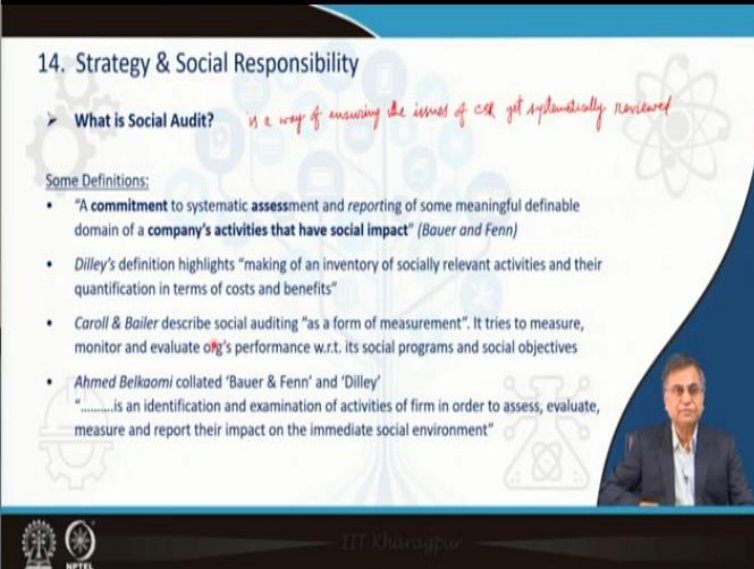
Then environmental sustainability, take tree plantations, and then you take the rubber planting in certain areas. Coffee planting, depending on such plantings and the climate of those regions and all you do and also take measures of pollution control and waste management and will give you environmental sustainability.

So, then also initiate, or you can go for CSR activities, which will increase the employability of the people in that region. Still, you can impart vocational training such as women and all. you can give tailoring, the weaving training and give them a sewing machine, or you can give the weaving cooperative, and they may form cooperative machines and all so they can increase their earning powers. They can also produce those goods and. sell them that way, you increase the employability of the populations in that region.

Even if you can give ITI training for diesel mechanics, say, auto mechanics, electricians, TV repair, or phone repairing, these will also increase the employability of the local youth. So that

they will be beneficial for the country, then also, there is another PM's National Relief Fund you can contribute to, and it is generally used for very noble causes like disasters and all those who are needy. these are some preferred areas of CSR's activities, and the list is always changing; these lists are not static; these change from time to time, and these are the CSR activities.

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14. Strategy & Social Responsibility

➤ What is Social Audit? *is a way of ensuring the issues of CSR get systematically reviewed*

Some Definitions:

- "A **commitment** to systematic **assessment** and **reporting** of some meaningful definable domain of a **company's activities that have social impact**" (Bauer and Fenn)
- Dilley's definition highlights "making of an inventory of socially relevant activities and their quantification in terms of costs and benefits"
- Carroll & Bailer describe social auditing "as a form of measurement". It tries to measure, monitor and evaluate org's performance w.r.t. its social programs and social objectives
- Ahmed Belkaoui collated 'Bauer & Fenn' and 'Dilley'  
".....is an identification and examination of activities of firm in order to assess, evaluate, measure and report their impact on the immediate social environment"

Logo of IIT Kharagpur and NPTEL are visible at the bottom left. A small video inset of a man in a suit is on the right side of the slide.

Now, we will be going for another social audit. what is a social audit? So, we will be discussing that. So, social audit, how can you define social audit? Can anyone define it? A social audit is a way of ensuring the issues of CSR get reviewed systematically.

So, I will now give you some definitions by different authors and how they have defined them. So, here one definition is given as Bauer and Fenn give this, they say social auditing is a commitment to systematic assessment and reporting some meaningful definable domain of companies' activities that have the social impact they have defined.

Some other author has defined Dilley's definitions as highlighting making an inventory of socially relevant activities and their quantification in terms of costs and benefits. Then, Carroll and Bailer describe social auditing as a form of measurement. It tries to measure, monitor, and evaluate an organisation's performance concerning its social programs and social objectives.

Then Ahmed Belkaoui collated Bauer and Fenn and Dilley, these first two, they have collated and postulates that social auditing is the identification and examination of activities of the firm to assess, evaluate, measure and report their impact on the immediate social environment. So, these are some of the definitions of social auditing.

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14. Strategy & Social Responsibility

- Why Co.'s shall undertake Social Audit?
  - Public criticism
    - Identify, Address,
    - Inform, Disseminate,
    - Offset vested interests
  - Not for appeasing critics, but to satisfy business leaders conscious and curiosity. \*

The slide features a background with a stylized tree and various icons. In the bottom right corner, a man in a suit is visible, likely the speaker. The bottom of the slide includes logos for IIT Kharyagpur and NPTEL.

Now, we will go further and talk about why companies shall undertake a social audit. what is the necessity of doing a social audit by a company? Can you answer that? It is primarily done to guard against public criticism because when a company is successful, big companies all draw the attention of many quarters, there will be pressure groups, expectations from the shareholders, local community, larger public, consumers, and so many things are there.

So, they have to guard themselves against their criticisms and all. So, how do you guard yourself? So, the best way to guard yourself is to be proactive, and there are many self-appointed groups in society; they are always looking after your weaknesses, and they are looking after how to get some milk or get some piece of cake from you. So, you have first to identify the vulnerable areas of your activities and vulnerable areas of your operations. you identify them first before anyone can point them to you. So, you have to be proactive about that.

And after identifying those vulnerable areas, you act on and address those issues and mitigate those issues. So that it does not go out of hand, you are killing it before the other self-appointed groups point it out. So, identifying and addressing the issues of your own, then you disseminate this information and be proactive to inform the general public and the local community that you have done this so that they are well informed and not in any doubt. So, if you inform and disseminate information about that, then you this way you are offsetting the vested interest.

Vested interests are these self-appointed groups; there are pressure groups and media. Media is very powerful, and they cannot bring out any report of any of these things and tarnish your image. So, if you identify your vulnerable areas and mitigate those, you are offsetting any self-appointed outside group attacking you this way; you safeguard against public criticism.

Then another important thing is that the companies must keep in mind that they are not doing this CSR activity to appease the critics; that should not be the case, but it should come out from your clear conscious, and it should come out for you doing the things for your meeting that curiosity.

So, satisfy the business leaders or the top management. Conscious should be clear that you are doing this CSR for the greater achievement, greater betterment of the society as well as the long-term sustainability of your organisation. So that is why companies shall undertake this social auditing because social auditing ensures the issues of CSR get systematically reviewed and assessed in your organisation.

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14. Strategy & Social Responsibility

➤ Types (Frameworks) of Social Audit:

- Social Process or Program Management Audit
  - Historical perspective
  - Cost analysis
  - Benefit analysis
- Financial Statement Format Social Audit
  - Abt Associates' proposal
  - Linowes model
- Macro-Micro Social Indicator Audit

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So, what are the types of the framework of the social audit? How do you carry out the social audit? It is a very tricky thing because there are no definable things, and all it is not that there is intangibility; there are difficulties in measurements and all those things are there. So, this is a very challenging task. So, there are many ways because the objectives of different companies may be different. And so, there are seven frameworks of social auditing; we will be discussing them one by one.

So, those are generally available in the literature, and companies follow it a first thing one type of framework is a social process or program management audit. And this was first used by Bank of America. Bank of America initiated 4 programs for these social and two of them. One is the student loan program, and another is the minority enterprise program, these two programs they initiated.

Now, how do you do the social auditing of this? So, they did; there are three aspects of this social process of auditing. In the social process auditing, the first thing is the historical perspective; you have to look at those programs. Bank of America, after they introduced those programs, and after a few years, they wanted to know the social auditing they wanted to do; how does this program go well or not? Whether it has fulfilled its objectives or not? That must be measured after a few years of the program's initiation.

So for that, they have to do what the social auditing was? First, what was the historical perspective for introducing the program? What are the underlying reasons that programs were



introduced? What was the objective of the programs? So, they have to gather all that information from the historical perspective, then the cost analysis, what was the cost for this program?

So, the cost may be direct cost; the cost may be allocated cost, the cost may be opportunity cost, all these you have to consider. then you do the cost analysis. Then the third step is the benefit analysis; how has the program benefited the people selected for those loans or the immediate society? So the benefit analysis somewhere it is quantifiable, you capture the quantifiable benefits, but when it is, it is not quantifiable, so you have to do.

What do you do? This is a bit difficult. You have to survey the people concerned with that program or affected by it or the part of the program, whatever it may be; you make a survey and get it. These are the ways of that social process auditing.

Next is the financial statement format social audit; what does it mean? This is like this was developed by two groups. One is called Abt Associate proposal, which is a consultancy firm. Another is the David Linowes model, so there are two types of models. Just like Abt Associate they introduced first, it is similar to a financial statement that format only a balance sheet, income statement, and profit and loss statement, that sort of statement they do it.

And what do they do? On one side, they have put social assets, and on the other side, they are putting social liabilities, social commitments and social projects; all these are on the other side, so try to follow that, and this was the Abt Associate proposal, but there are some drawbacks and all. So, Linowe's model comes out with some modifications of that Abt Associates proposal. They say that they have similar financial statements they do, but they say that everything should not be considered for this social auditing.

Like those are mandatory statutory requirements by the law, those things should not be part of the social audit like that trade unions welfare and all of those things are given by the statutory law, it should not be that though captured in that. So, there are some differences between the financial statement format and social audit.

The third one is micro-social indicator audit; what does it mean? Macro is the societal target society or a region's target as a whole in some parameters, and the micro is the company's target

in those areas. Suppose one of the parameters for those societies, that to improve the quality of life of the society or in a city or a region.

So, how do you improve your quality of life? It consists of many components, many areas for improving the quality of life, you have to improve the transport system, you have to improve the living conditions, health infrastructure system. Then you have to do the educational system, then the internet and all those electricity, utility all those systems you have to improve it recreations, their hotel facilities everything you have to improve.

So, in suppose you are concentrating on some municipalities. Take the case they are concentrating on improving the housing of certain category of people, low-income group people housing things in those cities has to be improved. So, the municipalities or the societies that the program is they have will develop 1 lakh or 100,000 dwelling houses in 5 years or 10 years; now, that is the macro indicator for the higher authorities.

Now, if a company takes some CSR activities in areas of making housing for the poor who need it and they will produce twenty thousand houses in 5 years. So it becomes their macro indicators, so every year, they will be doing how many houses? 4000 houses than in comparison to the macro indicators whether they are setting their target for the micro indicator and they are linking these two whether they are getting it or not this macro-micro social indicator audit the concept.

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14. Strategy & Social Responsibility

➤ Types (Frameworks) of Social Audit (contd.):

- Corporate Rating Approach
- Constituency Group Attitudes Audit
- Partial Social Audit/Aspect Audit
- Comprehensive Audit

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Then there is the corporate rating approach; there are many groups, and all there that are self-appointed or very powerful groups like the United Church Group in the USA; there may be the mutual fund group; there may be the consumer group, Ralph Nader Group, and all very powerful. There may be the Green Group. These groups also rate the big companies and all on the parameters of CSR or the parameters of environmental effect, waste materials or waste management, and environmental degradation on those parameters, rate it, and they bring out their report that is a corporate rating approach.

In fact, what do they do? They take the general opinion from cross sections of the people and come to some conclusion and give those reports; those are the corporate rating approach. these are independent. It may be NGOs; it may be pressure groups, self-appointed groups, or media groups. All those can be.

Then there are constituency group attitude audits. What is the constituency group? This may be a particular segment of people. It may be the supplier's group; it may be the customer's group; it may be the media group; it may be the pressure group. So, they form their appointed (constituency). These are the attitude audit they bring out.

Then there is the partial social audit, also called aspect audit. What are these partial auditors? like you can say that an energy audit, then it may be a human resource accounting audit, it may be a water conservation, or oil conservations audit. So, it can be that these are partial social or aspect audits. And comprehensive audit is when you take all these auditings together that becomes a

comprehensive audit for the organisation, these are the seven types or frameworks of social audit that are available in the literature, and one can follow this.

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14. Strategy & Social Responsibility

➤ Problems in Social Audit :

- Scope of Social Audit  
(varying interest of stakeholders)
- Measurement Problems  
(benefits to society)

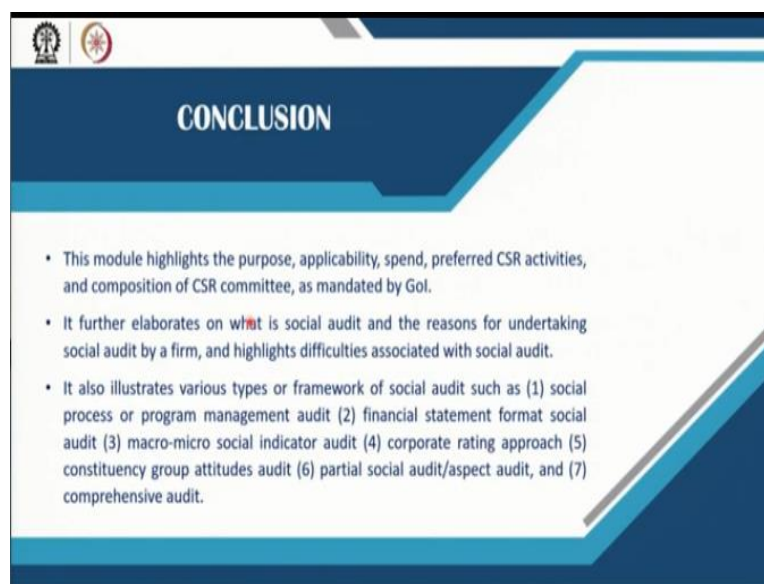
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Next, we will be talking about what are the problems in a social audit. This means difficulties in social auditing, it is not very many things that may be intangible, and I will talk about it just after one minute. The first problem is the scope of the audit; what should be the scope of the audit? Like because you have different stakeholders who are of different types, I have told you their interests are varying, the interest of your shareholders is to get a maximum economic return, and the interest of your employees will be to get more salary or bonuses; the interest of your suppliers will be different, the interest of your customers will be different.

Customers will want a lesser price, better quality, and all that of your joint venture partners, local communities, and pressure groups. everybody wants to get some piece of the cake, so it is a conflicting interest. So, what do you do with the scope, making the scope of the social audit? You have to balance all those things, so this is the scope of the social audit; it is a very difficult task to balance.

Another is the measurement problem; as I told you, that benefit to society, some benefits can be intangible, or some benefits are very difficult to capture so it may be qualitative; you have to do it with surveying and all, and the benefit you are doing some CSR work today, but the benefit may come after a long period say 5 years or 10 years. Suppose you are giving some health care, those CSRs and all doing it. So, the benefits of it take time to come, so it comes late. So measurement problems are difficult to measure, so these are the problems associated with the social audit.

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So, we should summarise today's session and what we learned; we have seen that this module highlights the purpose of CSR, the applicability of CSR, spend what should be spent. And what are the preferred CSR activities? And the compositions of CSR committees, all as mandated by the government of India. It further elaborates on what is social audit and the reasons for undertaking a social audit by a firm and highlights the difficulties associated with it.

It also illustrates various types of types or frameworks of social audit, such as social process or program management audit, financial statement format social audit, macro-micro social indicator audit, corporate rating approach, constituency group attitude audit, partial audit or aspects audit, and comprehensive audit.

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So, these are the references book you can go through to upgrade your knowledge further. Thank you very much for attending.