



## SOCIAL AUDIT AS A TOOL OF BRAND IMAGING

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### **Abstract**

Social Auditing is a kind of social accountability or responsibility where the company ensures that they are following the norms or regulation relating to welfare of workers, protection of human rights, ensuring protection to environmental and others social issues. Social auditing provides a mechanism where the companies or other business enterprise can scrutinize, determine, and appraises their social performance. This is emerging as an important tool not only for corporate social responsibility but also helping the companies to build the image in international market. The present research paper is firstly discusses the meaning, scope and the Development of the Social auditing. The paper further highlights the benefits and social audit approaches and tools. The paper further discusses the social auditing in India and concludes the same on the problems posed.

**Key words:** Social Auditing, TNC's, Social Auditing tools, corporate social responsibility and Section 135 Companies act, 2013, Brand Imaging

### **I Introduction**

Transnational Corporations (TNCs) are active in most of the dynamic sectors of national economies. They bring new jobs, technology, and capital, and are capable of exerting a positive influence in fostering development, by improving living and working conditions.<sup>1</sup> At the same time, however, they violates human rights to maximise their profits the Bhopal environmental disaster in India; maquiladoras (export-oriented factories) in Mexico, Honduras, and El Salvador; and Nike sweatshops in Indonesia and Pakistan are prime examples.<sup>2</sup> They employ child labourers, adopt policy of discrimination against certain group of employees. Corporations also dump toxic waste and their production processes may have consequences for the lives and livelihoods of neighbouring communities.

In India and abroad, many international NGOs started highlighting not only human rights violation by these TNCs but also their anti-public policies and products of the TNCs like the activities of Union Carbide Corporations and Enron Corporation of India, Unocal Corporation in Myanmar, Reebok in Asia, Shell Oil Company in Nigeria, Texaco in Ecuador, and Freeport-McMaron in Indonesia. Many NGOs and Civil Society organisations initiated campaigns to boycott the products like Nestle infant milk in 1970s, anti nylon 6,6, against DuPont, and among the latest against Hindustan Coca Cola Company at Plachimada.

As a result of these campaigns, the TNCs suffered loss in terms of profits as well as brand image and to the extent that most of the European countries banned the import of goods produced by the companies by employing child labour for e.g. GAP Apparel. The intergovernmental organizations like the UN, ILO, and regional organizations like EU while addressing this discourse drafted and issued various voluntary guidelines for TNCs. At the same time, various independent institution emerged as part of this trend and offered various tools and techniques to TNCs for image building by making their own choices according to their specific needs. This tool is known as 'Social Audit'.

### **II Meaning and Scope of Social Audit**

In the era of Corporate Social Responsibility (CSR), where corporations are often expected not just to deliver value to consumers and shareholders but also to meet environmental and social standards deemed desirable by some vocal members of the general public, social audits can help companies create, improve and maintain a positive public relations image.<sup>3</sup> The social audit is a natural evolutionary step in the concern for operationalizing CSR and, its essence, represents a managerial effort to develop a calculus for gauging the firm's socially oriented contributions.<sup>4</sup> The goal is to identify what, if any,

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<sup>1</sup> David Weissbrodt, "UN Human Rights Norms for Business", *International Law FORUM du droit international*, Vol. 7, No. 4, 290-297 at 290 (2005).

<sup>2</sup> Mahmood Monshipouri, Claude E. Welch, Jr. and Evan T. Kennedy, "Multinational Corporations and the Ethics of Global Responsibility: Problems and Possibilities", *Human Rights Quarterly*, Vol. 25, 965-989 at 975 (2003).

<sup>3</sup> <<http://www.investopedia.com/terms/s/social-audit.asp#ixzz2KydgffzG>> Accessed on March 31, 2017.

<sup>4</sup> Archie B. Carroll and George W. Beiler, "Landmarks in the Evolution of the Social Audit", *The Academy of Management Journal*, Vol. 18, No. 3, at 589 (Sep. 1975).



actions of the corporation have impacted the society in some way. A social audit may be initiated by the corporation that is seeking to improve its cohesiveness or improve its image within the society.<sup>5</sup>

### III Evolution and Development of Social Auditing

The social audit as a concept for monitoring, appraising and measuring the social performance of business dates back to 1940. In 1940, Theodore J. Krepes used the term 'Social Audit' in a monograph, entitled "Measurement of the Social Performance of Business", which was part of a Temporary National Economic Committee series of studies and investigations concerning the concentration of economic power.<sup>6</sup>

Secondly, the term 'social audit' used is by Howard R. Bowen in his work entitled, *Social Responsibilities of the Businessman* in 1953. Bowen suggested that "the social auditors would make an independent and disinterested appraisal of a company's policies regarding prices, wages, research and development, advertising, public relations, human relations, community relations, employment stabilization, etc."<sup>7</sup>

During the industrial restructuring of the UK economy in the 1970s and 1980s several local authorities, often in association with trades unions, commissioned reports into the likely impact of plant closures on local communities. As pressures built during the 1980s about the impact of industry on the environment, standards began to be developed requiring companies (and others) to report on likely and actual environmental impacts. The growth of interest in ethical investment led to the need to uncover and better understand just what corporations do and how they use the funds invested in them. The 'watchdog' role was taken forward by such organisations as the 'Ethical Investment Research Service and Ethical Consumer'.<sup>8</sup>

At the same time in the United States, public repudiation of the war in Vietnam triggered a movement to boycott the goods and shares of some companies that were associated with the conflict. Society demanded a new ethical attitude and some companies began to provide accounts for their social actions and objectives. The Social audits rose to prominence in the 1970s when a number of North American companies in particular began to incorporate them into their annual reports.<sup>9</sup>

### IV Benefits of Social Auditing

The numbers of TNCs, which publish social audit reports, are continuously increasing. There are many reasons behind this increase: Firstly, the social audit report supplies data for comparison with policies and standards so that management can determine how well the organization is living up to its objectives. Secondly, it encourages greater concern for social performance throughout the organization. Thirdly, it provides data for comparing the effectiveness of different types of programs. Fourthly, it helps in creating the provision of cost data on social programs, so that management can relate this data to budgets, available resources, and company objectives and to projected program benefits. Fifthly, a benefit of social audit is that it provides information for effective response to external groups which make demands on the organization.<sup>10</sup>

### V Impacts of Social Audit Approach

Due to globalization, liberalization and privatization, the TNCs joined a race to increase their profits by all means. During 1980s - 90s, the social audit approach laid down immense impact on the corporate world. The TNCs were trying hard to prove themselves as a socially responsible organ of the society rather than a mere profit making institutions, because NGOs, social workers, human rights activists were not leaving any stone unturned in highlighting the anti-social face of the TNCs resulting into loss of brand image by way of anti brand campaigns.

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<sup>5</sup> <<http://www.businessdictionary.com/definition/social-audit.html#ixzz2KyalMKvy>> Accessed on March 31, 2017.

<sup>6</sup> Theodore J. Krepes, "Measurement of the Social Performance of Business", *Annals of the American Academy*, Vol. 343, 20-31 at 22 (Sept. 1962).

<sup>7</sup> *Ibid.*

<sup>8</sup> John Pearce, *Brief History of Social Accounting and Audit*, (2005). <<http://www.socialauditnetwork.org.uk/getting-started/brief-history-social-accounting-and-audit/>> Accessed on April 05, 2017.

<sup>9</sup> Graham Haughton, "Constructing a Social Audit: Putting the Regional Multiplier into Practice", *The Town Planning Review*, Vol. 58, No. 3, 255-265 at 256 (Jul., 1987).

<sup>10</sup> *Supra* note 8, at 16.

At this juncture, besides a number of organizations took initiatives to institutionalize the social audit approach by standardizing the parameters,<sup>11</sup> new approaches emerged, besides the service provider organizations, like Sullivan Principles, Triple Bottom Line (TBL), the Corporate Social Responsibility (CSR), which according to the author, are the outcome of the imminent impact of the social audit approaches. Even though these approaches i.e., Sullivan Principles, CSR and TBL are the outcome of the impact of the social audit approach but the differences between these approaches is very significant in many ways.

**(i) Sullivan Principles**

In 1977, the Sullivan Principles were developed by Rev. Leon Sullivan<sup>12</sup>, as a code of conduct for U.S. Companies<sup>13</sup> doing business in apartheid - South Africa. Even more significantly, he developed the means for the code's implementation and the organizational structure to evaluate corporate social performance in South Africa.<sup>14</sup>

In 1999, Rev. Sullivan and then UN Secretary General Kofi Annan jointly unveiled the *Global Sullivan Principles*. The new and expanded corporate code of conduct, as opposed to the originals' specific focus on South African apartheid, were designed to have companies and organisations of all sizes, in widely disparate industries and cultures, working toward the common goals of human rights, social justice and economic opportunity at the international level.<sup>15</sup> The overarching objective of these principles, according to Leon Sullivan, is "to support economic, social and political justice by companies where they do business," including respect for human rights and equal work opportunities for all peoples.<sup>16</sup>

**(ii) Corporate Social Responsibility**

Known by different name such as Corporate Responsibility, Corporate Citizenship, Community Relations, and Social Responsibility, the phrase "*Corporate Social Responsibility*" was first coined in 1953 with the publication of Bowen's '*Social Responsibilities of Businessmen*',<sup>17</sup> the work laid the emphasis on widening the ambit of responsibility of businessmen and shifting the business aim from "corporate financial performance" to "corporate social performance" so that it can be made liable for their action. Corporate Social Responsibility is based on the concept of Triple Bottom Line which state that firm should work on three P's i.e. Profit, People and Planet. It aims to measure the financial, social and environmental performance of the corporation over a period of time.

CSR is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives<sup>18</sup> ("Triple-Bottom-Line- Approach"), while at the same time the view that a corporation has responsibilities in the area of human rights and environment and towards other stakeholders is

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<sup>11</sup> *The idea behind standardizing the parameters was to measure the social performance of the corporations at a particular scale and to make it easy to have a comparison with other TNCs. Three such tools are SA8000, FLA, and GRI.*

<sup>12</sup> *A Black minister who was a member of the Board of Directors for General Motors formulated the Principles to guide U.S. business in its social and moral agenda in South Africa. See: D Hauck, Two Decades of Debate: The Controversy Over US Companies in South Africa, 155 (1983).*

<sup>13</sup> *At the time of the original announcement in March 1977, there were twelve corporate signers: General Motors, Union Carbide, Ford, Otis Elevator, 3M, IBM, International Harvester, American Cyanamid, Citibank, Burroughs, Mobil and Caltex. However, the next year when the first report was compiled, membership in the signatory group had grown to 105 companies, and finally grew to 183 for the tenth reporting period, 1986. In 1987 the number of U.S. Signatories dropped to 90, as a result of 52 company withdrawals from South Africa, 8 cases where U.S. companies remained in South Africa but withdrew from the Signatory Group, and 2 cases where Signatories were dropped from the group because of non-payment of dues. The U.S. Department of State reported that at the end of 1986 there were just 29 U.S. companies operating in South Africa who were not signatories to the Sullivan Code, but this number increased by about 10 during 1987. See: infra note 151.*

<sup>14</sup> *Karen Paul, "Corporate Social Monitoring in South Africa: A Decade of Achievement, an Uncertain Future", Journal of Business Ethics, Vol. 8, No. 6, 463-469 at 464-65 (June, 1989).*

<sup>15</sup> *Donald K. Anton and Dinah L. Shelton, Environmental Protection and Human Rights, 893 (2011). Also see: <<http://www.cauxroundtable.org/index.cfm?menuid=8>> Accessed on September 10, 2016.*

<sup>16</sup> *<[http://en.wikipedia.org/wiki/Sullivan\\_principles](http://en.wikipedia.org/wiki/Sullivan_principles)> Accessed on August 13, 2016.*

<sup>17</sup> *Howard R. Bowen, Social Responsibility of the Businessman (1953).*

<sup>18</sup> *<<http://www.unido.org/what-we-do/trade/csr/what-is-csr.html>> Accessed on September 10, 2016.*

contentious. The entire discussion is deeply rooted in corporate law theory.<sup>19</sup> There are basically two different views: the shareholder and the stakeholder view.<sup>20</sup> Milton Friedman outlined the shareholders view as “there is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits.”<sup>21</sup>

At present, most of the TNCs publish the CSR reports annually, which generally remain available on their website as well. Even the TNCs which have been a very bad record of serious human rights violations as early as five years ago, like China National Petroleum Corporation, Nike, Caterpillar Ltd, Wal-Mart, Shell, British Petroleum, Siemens and many more,<sup>22</sup> are claiming as promoters of the various international documents like the UN Global Compact, UN Code on Transnational Corporations, and UN Norms on the Responsibility of Business with Regard to Human Rights and so on. Most of the TNCs have opted for international professional organization to prepare CSR reports for them.

In India, recently, the *Companies Act, 2013* has introduced a small measure that has the potential to change the way business and society engage with each other.

The Ministry of Corporate Affairs also on conclusion of “India Corporate Week- 2009” announced Corporate Social Responsibility Voluntary Guidelines, 2009 which advocates value based and ethical business practices, cordial labor relations, customer satisfaction and loyalty, generating benefits to the community and the environment, being the major stakeholder.<sup>23</sup>

In the last decade many Indian TNCs came forward to perform their social responsibilities. To name a few examples: Tata Cancer Research Centre, Mumbai, Tata Institute of Fundamental Research and many social development project initiatives of Tata Group of companies is well known.<sup>24</sup> Reliance Industries Ltd. launched a countrywide initiative known as “Project Drishti”<sup>25</sup>, to restore the eye-sights of visually challenged Indians from the economically weaker sections of the society. Hero Moto Corp takes considerable pride in its stakeholder relationships, especially ones developed at the grassroots. The Company believes it has managed to bring an economically and socially backward region in Dharuhera, Haryana, into the national economic mainstream.<sup>26</sup> Infosys promoted, in 1996, the Infosys Foundation as a not-for-profit trust to which it contributes up to 1% PAT every year. Additionally, the Education and Research Department (E&R) at Infosys also works with employee volunteers on community development projects.<sup>27</sup>

However in many cases small and big companies have acquired land, displacing population by promising jobs in upcoming industry, shops nearby area, good business opportunities, housing, local area development for poor with better living conditions, electricity, drinking water accessibility and so on, but all these promises remain a dream to original inhabitants of the area and even distant population gets affected due to pollution of air, water, law crimes due to migrant population and other social evils. Not only this there are many more example when TNCs not only failed in performing their corporate social responsibility but their actions proved as crime against humanity also. To quote a few examples:

Beginning in the mid to late 1970s, international and Indian campaigns against Nestle. The Nestle controls about half the global baby food business and is notorious for sales practices such as giving away free food samples in hospitals and elsewhere as well as aggressive and misleading advertisements which undermine breastfeeding.<sup>28</sup> The most infamous Bhopal

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<sup>19</sup> J Sarra, “Corporate Social Responsibility in the Global Economy: Canadian Domestic Law and Legal Processes as a Vehicle for Creating and Enforcing International Norms,” (2003). As quoted by Niels Beisinghoff, *Corporations and Human Rights: An Analysis of ATCA Litigation against Corporations*, 85 (2008).

<sup>20</sup> CA Williams, “Corporate Social Responsibility in an Era of Economic Globalization”, *UC Davis Law Review*, Vol. 35, 705 at 715 (2002).

<sup>21</sup> M Friedman, “The Social Responsibility of Business is to increase its Profit”, *New York Times (Magazine)* at 32 (September 13, 1970).

<sup>22</sup> *Supra* note 25, at 90-93.

<sup>23</sup> <[http://www.mca.gov.in/Ministry/latestnews/CSR\\_Voluntary\\_Guidelines\\_24dec2009.pdf](http://www.mca.gov.in/Ministry/latestnews/CSR_Voluntary_Guidelines_24dec2009.pdf)> Accessed on September 01, 2016.

<sup>24</sup> *Ibid.*

<sup>25</sup> <[http://www.ril.com/html/aboutus/social\\_resp\\_comm\\_dev.html](http://www.ril.com/html/aboutus/social_resp_comm_dev.html)> Accessed on September 01, 2016.

<sup>26</sup> <<http://www.heromotocorp.com/en-np/aboutus/csr>> Accessed on September 01, 2016.

<sup>27</sup> <<http://www.infosys.com/sustainability/Pages/corporate-social-responsibility.aspx>> Accessed on September 01, 2016.

<sup>28</sup> Jed Greer and Kavaljit, *TNCs and India*, 39 (1996).

gas leak case, in which the American TNC 'Union Carbide Corporation' escaped the civil as well as criminal liability with a compensation settlement of US \$470 million, a dismally paltry amount incapable of providing adequate monetary recompense for the many thousands of death claims and many hundreds of thousands of injury claims the toxic gas release has generated.<sup>29</sup>

In October 2003, a Cadbury stockiest in Mumbai detected worms in Cadbury's Dairy Milk chocolate. Then the Commissioner of Food and Drug Administration of Maharashtra examined the sealed Dairy Milk packs and found worms in them. He immediately ordered the seizure of all Cadbury's Dairy Milk chocolates from the company's factory in Talegaon near Pune.<sup>30</sup>

In the year 2001 the Unilever Company has dumped 300 metric tons of mercury at Kodaikanal located at South India. In order to tackle above situations a new initiative has taken by Government of India, that is *CREP*, or "*The Corporate Responsibility for Environmental Protection*" initiated by the Indian government in the year 2003.<sup>31</sup>

Most infamous example of the recent year regarding gross violations of human right by TNC in India is Coca Cola. Coca Cola Company came in for severe criticism from activists and environmental experts who charged it with depleting groundwater resources in the areas in which its bottling plants were located, thereby affecting the livelihood of poor farmers, dumping toxic and hazardous waste materials near its bottling facilities, and discharging waste water into the agricultural lands of farmers. Moreover, its allegedly unethical business practices in developing countries led to its becoming one of the most boycotted companies in the world.<sup>32</sup>

### (iii) *Triple Bottom Line*

The Triple Bottom Line (TBL/3BL) is an accounting framework that incorporates three dimensions of performance: social, environmental and financial. This differs from traditional reporting frameworks as it includes ecological (or environmental) and social measures that can be difficult to assign appropriate means of measurement. The 3BL dimensions are also commonly called the 3Ps: People, Planet and Profits.<sup>33</sup> In 1994, John Elkington coined the phrase 3BL and later used it in his book "*Cannibals With Forks: The Triple Bottom Line of 21<sup>st</sup> Century Business*" in 1997. He argued that companies should prepare three bottom lines - the 3BL - instead of focusing solely on its finances, thereby giving consideration to the company's social, economic and environmental impact.<sup>34</sup>

Andrew Savitz defines 3BL "captures the essence of sustainability by measuring the impact of an organization's activities on the world ... including both its profitability and shareholder values and its social, human and environmental capital."<sup>35</sup> Elkington's consultancy company, SustainAbility, which he founded in 1987, gives a big picture description of 3BL, as well as an accounting concept.<sup>36</sup>

The core value of 3BL is sustainability. The idea enjoyed some success in the turn-of-the-century *zeitgeist* of corporate social responsibility, climate change and fair trade. After more than a decade in which cost-cutting had been the number-one business priority, the hidden social and environmental costs of transferring production and services to low-cost countries such as China, India and Brazil became increasingly apparent to western consumers. These included such things as the indiscriminate logging of the Amazon basin, the excessive use of hydrocarbons and the exploitation of cheap labour.<sup>37</sup>

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<sup>29</sup> *Id.*, at 26.

<sup>30</sup> <<http://www.iitk.ac.in/infocell/announce/convention/papers/Industrial%20Economics,%20Environment,%20CSR-07-VijayLaxmi%20Iyengar.pdf>> Accessed on September 01, 2016.

<sup>31</sup> <<http://cpcb.nic.in/crep.php>> Accessed on September 03, 2016.

<sup>32</sup> Sujith Koonan, "Legal Implication of Plachimada: A Case Study", *IELRC Working Paper 2007-05, 1-17*. <<http://www.ielrc.org/content/w0705.pdf>> Accessed on September 03, 2016.

<sup>33</sup> Timothy F. Slaper, "The Triple Bottom Line: What Is It and How Does It Work?", *Indian Business Review*, 4-8 (Spring 2011). <<http://www.ibrc.indiana.edu/ibr/2011/spring/pdfs/article2.pdf>> Accessed on October 06, 2016.

<sup>34</sup> <<http://www.investopedia.com/terms/t/triple-bottom-line.asp>> Accessed on October 06, 2016.

<sup>35</sup> Andrew Savitz, *The Triple Bottom Line*, 17 (2006).

<sup>36</sup> Frank Vanclay, "Impact Assessment and the Triple Bottom Line: Competing Pathways to Sustainability?". <[http://www.minerals.csiro.au/sd/pubs/Vanclay\\_Final.pdf](http://www.minerals.csiro.au/sd/pubs/Vanclay_Final.pdf)> Accessed on October 06, 2016.

<sup>37</sup> <<http://www.economist.com/node/14301663>> Accessed on October 06, 2016.



However, the main drawback highlighted by few authors<sup>38</sup> in 3BL is that there is no universal standard method for calculating the 3BL. Neither is there a universally accepted standards for the measures that comprise each of the three 3BL categories. This can be viewed as a strength because it allows a user to adapt the general framework to the needs of different entities (businesses and nonprofits), different projects or policies (infrastructure investment or educational programs), or different geographic boundaries (a city, region or country).<sup>39</sup> Another interesting fact is that UN Global Compact, and its 10 principles covers all three bottom lines: 6 principles on human rights, including core labour rights, 3 principles on the environment and 1 principle on the Economic Bottom Line.

## VI Tools of Social Auditing

### (i) Global Reporting Initiative

Global Reporting Initiative (hereinafter GRI) is a multi-stakeholder, network-based organization. Its Secretariat is headquartered in Amsterdam, the Netherlands. The Secretariat acts as a hub, coordinating the activity of GRI's many network partners. GRI has focal points - regional offices - in Australia, Brazil, China, India and the USA. Its global network includes more than 600 Organizational Stakeholders - core supporters - and some 30,000 people representing different sectors and constituencies. GRI also enjoys strategic partnerships with the UN Environment Programme, the UN Global Compact, the Organisation for Economic Co-operation and Development (OECD), International Organization for Standardization and many others.<sup>40</sup>

The first official edition of the GRI Guidelines was released in June 2000, and the work on the next edition commenced immediately thereafter. A group of 31 companies<sup>41</sup> invested considerable resources towards pilot testing the Guidelines. The second GRI international symposium successfully drew in the stakeholder groups (labor, international NGOs, investors) and the geographic regions (Africa, Asia, Southern and Central America) that until then were underrepresented within the GRI network. It also gave birth to the global multi-stakeholder network, the signature of GRI.<sup>42</sup>

The third generation of Guidelines, G3, was released in October 2006. After G3 was launched, GRI expanded its strategy and Reporting Framework, and built powerful alliances. Formal partnerships were entered into with the UN Global Compact, the OECD, and others. A regional GRI presence was established with Focal Points, initially in Brazil and Australia and later in China, India and the USA. Sector-specific guidance was produced for diverse industries in the form of Sector Supplements (now called Sector Guidelines).<sup>43</sup> In March 2011, GRI published the G3.1 Guidelines - an update and completion of G3, with expanded guidance on reporting gender, community and human rights-related performance.

In May 2013, GRI launched the fourth generation of Guidelines, the G4. The G4 offer *Reporting Principles, Standard Disclosures* and an *Implementation Manual* for the preparation of sustainability reports by organizations, regardless of their size, sector or location. The Guidelines also offer an international reference for all those interested in the disclosure of governance approach and of the environmental, social and economic<sup>44</sup> performance and impacts<sup>45</sup> of organizations. The

<sup>38</sup> Wayne Norman and Chris MacDonald, "Getting to the Bottom of "Triple Bottom Line"", *Business Ethics Quarterly*, Vol. 14, No. 2, 243-262 at 252 (April, 2004).

<sup>39</sup> *Supra* note 43, at 5.

<sup>40</sup> <<https://www.globalreporting.org/information/about-gri/what-is-GRI/Pages/default.aspx>> Accessed on April 10, 2016.

<sup>41</sup> Agilent, USA; BASF, Germany; Baxter International, USA; Bayer AG, Germany; British American Tobacco, UK; CWS Powder Coatings, Germany; ESAB, Sweden; Ford Motor Company, USA; Gaz de France; General Motors, USA; Halliburton, USA; Ito Yokado, Japan; Jebsen and Jessen, Singapore, Kirin Brewery Co., Natura, Brazil; Nike, USA; Panasonic, Japan; P&G, USA; Renault, France; Rio Tinto, UK; Royal Dutch/Shell, UK; Siam Kraft, Thailand; SKF Group, Sweden; Suncor Energy, Canada; Sydkraft Group, Sweden; Texaco, USA; TotalFinaELF, France; TransAlta, Canada; TXU Europe, UK; Vivendy Environmental, France; WSP Group, UK.

<sup>42</sup> Halina Szejnwald Brown, Martin de Jong and Teodorina Lessidrenska, "The Rise of the Global Reporting Initiative (GRI) as a Case of Institutional Entrepreneurship", *Corporate Social Responsibility Initiative, Working Paper No. 36*, at 5 (2007).

<sup>43</sup> <<https://www.globalreporting.org/information/about-gri/what-is-GRI/Pages/default.aspx>> Accessed on April 10, 2017.

<sup>44</sup> The economic dimension of sustainability concerns the organization's impacts on the economic conditions of its stakeholders and on economic systems at local, national, and global levels. It does not focus on the financial condition of the organization.

Guidelines are useful in the preparation of any type of document which requires such disclosure. The Guidelines are developed through a global multi-stakeholder process involving representatives from business, labor, civil society, and financial markets, as well as auditors and experts in various fields; and in close dialogue with regulators and governmental agencies in several countries. The Guidelines are developed in alignment with internationally recognized reporting related documents, which are referenced throughout the Guidelines.

### (ii) **Social Accounting 8000**

In 1969, the Council on Economic Priorities<sup>46</sup> (CEP) was founded with a mission to provide accurate and impartial analysis to evaluate corporate social performance and to promote excellence in corporate citizenship. For nearly three decades, CEP has rated corporate performance to provide consumers and investors with information tools for change.<sup>47</sup> During the mid 1990s, the customers became concerned about the conditions under which the goods especially clothes was produced, hundreds of businesses drafted codes of conduct describing the appropriate workplace conditions for goods they manufactured and produced.<sup>48</sup>

In order avert consumer boycotts or claims for compensation, in early, 1997, an agency was established under the aegis of CEP known as the Council on Economic Priorities Accreditation Agency (CEPAA) and also convened an expert Advisory Board to assist in drafting standards to address workers' rights. As a result, the CEPAA has driven the development of Social Accountability 8000 (SA8000), a system which defines a set of auditable standards and an independent auditing process for the protection of workers' rights.<sup>49</sup> SA8000 has been developed to serve as a global CSR standards. It was designed to complement and extend ISO9000 quality management standards and ISO14000 environmental management certificate standards.<sup>50</sup> Today, the SA8000 standard is under the control of Social Accountability International (SAI), which emerged out of CEPAA, for its implementation.<sup>51</sup> SAI is a non-governmental, multi-stakeholder organization whose mission is to advance the human rights of workers around the world. It partners to advance the human rights of workers and to eliminate sweatshops by promoting ethical working conditions, labor rights, corporate social responsibility and social dialogue. It works to protect the integrity of workers around the world by building local capacity and developing systems of accountability through socially responsible standards.<sup>52</sup>

In 2007, the accreditation agency (CEPAA) was spun off to become Social Accountability Accreditation Agency (SAAS). SAAS provides accreditation services for SAI, Inter Action, and the Business for Social Compliance Initiative (BSCI). Since its formation, SAI has worked cooperatively with stakeholders to improve the social performance of organizations around the world. SAAS is now an independent decision-making agency, linked to SAI only through contractual arrangements. Till March, 2013 SAAS has provided 3,137 SA certified facilities in 69 countries across 65 industrial sectors employing over 1,829,776 million workers, and 21 SAAS Accredited Certification Bodies.<sup>53</sup>

### (iii) **Fair Labor Association**

In 1990s, the inter-governmental organisation, regional organisations, NGOs, workers, consumers and the world community at larger raised their voices against the 'sweatshop practices', wherein grave human rights/labour rights violations were reported, adopted by many transnational/multinational corporations and their subsidiaries. Most of such practices were being

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<sup>45</sup> In the Guidelines, unless otherwise stated the term 'impact' refers to significant economic, environmental and social impacts that are: positive, negative, actual, potential, direct, indirect, short-term, long-term, intended, unintended.

<sup>46</sup> The Council comprises such companies as Otto and Avon, as well as a number of non-governmental organizations (NGOs). The background of the organization was based on the development of a standard of socio-ethical engagement of companies that would lead to worldwide consensus. At the same time, economic reasons played an important role in its establishment.

<sup>47</sup> <[http://www.citinv.it/associazioni/CNMS/archivio/lavoro/Presentazione\\_SA8000.html](http://www.citinv.it/associazioni/CNMS/archivio/lavoro/Presentazione_SA8000.html)> Accessed on April 19, 2017.

<sup>48</sup> <<http://www.sa-intl.org/index.cfm?fuseaction=Page.ViewPage&pageId=938>> Accessed on April 20, 2017.

<sup>49</sup> Supra note 56.

<sup>50</sup> Morgan P. Miles and Linda S. Munilla, "The Potential Impact of Social Accountability Certification on Marketing: A Short Note", *Journal of Business Ethics*, Vol. 50, No. 1, 1-11 at 4 (March, 2004).

<sup>51</sup> In May 2013, the SAI declared that it started the process to review the SA standards and it will comply with the standard review process of ISEAL Code of Good Practice. <<http://www.sa-intl.org/index.cfm?fuseaction=Page.ViewPage&PageID=1478>> Accessed on August 06, 2013.

<sup>52</sup> <<http://www.sa-intl.org/index.cfm?fuseaction=Page.ViewPage&pageId=472>> Accessed on August 06, 2016.

<sup>53</sup> <<http://www.saasaccreditation.org/certifacilitieslist.htm>> Accessed on August 06, 2016.

followed by the TNCs in their setup units established in the developing or least developed countries. In 1996, the then USA President Bill Clinton convened a meeting of Transnational Companies and NGOs at the White House and challenged them to work together to improve working conditions in the apparel and footwear industries. This group became the Fair Labor Association, a 501(c)3 non-profit organization incorporated in 1999.<sup>54</sup>

The mission of the Fair Labor Association (hereinafter FLA) is to combine the efforts of business<sup>55</sup>, civil society organizations<sup>56</sup>, and colleges and universities<sup>57</sup> to promote and protect workers' rights and to improve working conditions globally through adherence to international standards. The FLA adopted a Charter to achieve this mission. The Charter of the FLA contains: (a) participation criteria for companies; (b) affiliation criteria for colleges and universities; (c) accreditation criteria for independent External Monitors; (d) Workplace Code of Conduct; and (e) principles of Monitoring.<sup>58</sup> Companies that join the FLA commit to 10 Principles of Fair Labor and Responsible Sourcing and agree to upholding the FLA Workplace Code of Conduct throughout their entire supply chain. Further, the FLA developed Sustainable Compliance methodology (hereinafter SCI) to respond to its affiliates need for a more effective social performance system.

In 2012, the FLA assessments were conducted based on the SCI methodology. The data and findings are from 2011 due diligence activities. In the year 2011 alone, the number of factory audits are 141, and estimated number of workers in those factories were 185,437. Further in the same year, the total number of factories used by FLA affiliates were 4,787 and more interestingly the number of workers impacted by FLA program was 5,545,439.<sup>59</sup>

The largest concentration of factories supplying FLA companies in 2011 was in China, where 1,841 factories or 38.5% were located. Whereas, in India only 257 factories were covered by supplying FLA companies, with an estimated 0.192 million workers. Under the FLA's program, an independent external monitoring (IEM) and independent external verification audit were conducted. The 7 audits conducted in South Asia (mainly India and Bangladesh) resulted in 75 findings of noncompliance, or roughly 10.7 findings of noncompliance per audit. In all of the 7 audits conducted in the region, FLA-accredited monitors recorded at least one violation of the benchmark regarding Health & Safety and Hours of Work. Non-compliances were also high for Wages, Benefits & Overtime i.e. compensation with at least one benchmark of this code element breached in 6 of 7 inspections.<sup>60</sup>

## VII Social Auditing in Corporate Sector in India

The social audit movement was a precursor to corporate social monitoring. When the concept of social responsibility has been gaining momentum, the Indian corporations have also started initiating the process of social audit to retain their customers' value and contribute positively towards their social goal. In 1970, Tata Steel, which happens to be the largest Private Sector Steel Company or TNCs in India, was the first company which took initiatives to start the process of social audit. It formally incorporated its commitment to the stakeholder concerns, including those of the nation, and environment, in its Articles of Association.<sup>61</sup>

The Company shall have among its objectives the promotion and growth of the national economy through increased productivity, effective utilisation of materials and manpower resources and continued application of modern scientific and managerial techniques in keeping with the national aspirations, and the Company shall be mindful of its social and moral responsibilities to the consumers, employees, shareholders, society and the local community.<sup>62</sup>

In order to objectively and effectively assess its corporate social responsibility in terms of the impact of its activities on stakeholders, Tata Steel conducts a Social Audit of the organisation every ten years, carried out by an Audit Panel consisting

<sup>54</sup> <<http://www.fairlabor.org/history>> Accessed on May 10, 2017.

<sup>55</sup> <<http://www.fairlabor.org/affiliates/participating-companies>> Accessed on May 10, 2017.

<sup>56</sup> <<http://www.fairlabor.org/affiliates/civil-society-organizations>> Accessed on May 10, 2017.

<sup>57</sup> <<http://www.fairlabor.org/affiliates/colleges-universities>> Accessed on May 10, 2017.

<sup>58</sup> <<http://www.fairlabor.org/mission-charter>> Accessed on May 10, 2017.

<sup>59</sup> <<http://www.fairlabor.org/report/2011-annual-public-report>> at 8 Accessed on May 10, 2017.

<sup>60</sup> *Id.*, at 15, 16 and 19.

<sup>61</sup> Pheroza Godrej and Justice S.K. Mohanty, 3<sup>rd</sup> *Social Audit 1991-2001*, 2 (2005).

<sup>62</sup> Clause 4A: *Social Responsibility of Company, Articles of Association, Tata Motors Limited*, 7. <<http://www.sec.gov/Archives/edgar/data/926042/000119312504156777/dex12.htm>> Accessed on October 01, 2016.





of members, independent of, and unconnected with, the Company, selected by the Board. The exercise is guided by the following 'Terms of Reference' (TOR), based on the 'Articles of Association'.

'To examine and report whether, and the extent to which, the Company has fulfilled the objectives contained in Clause 4A of its Articles of Association regarding its social and moral responsibilities to the consumers, employees, shareholders, society and the local community.'

As is evident from the TOR, the scope of the Social Audit is quite vast and broad, touching every aspect of organisational activities and performances, and leaves little for interpretation. TOR engages assessment of the organisation's social and moral responsibilities to the consumers, employees, shareholders, society and the local community.<sup>63</sup>

The 1<sup>st</sup> Social Audit, for the period prior to 1980, was conducted in the year 1980 based on the 'Articles of Association'. The Audit Panel interacted with stakeholders, visited the organisation's premises and other places of relevance to the audit, as per a mutually agreed schedule, and submitted its views and recommendations to the Board on 9th July 1980. This report covered social and moral responsibilities to consumers, society, employees, shareholders and the local community. In order to formalise the audit process, a 'Terms of Reference' for the Social Audit was laid down, as mentioned above. Accordingly, the 2<sup>nd</sup> Social Audit, for the period 1981 - 1991, was conducted in the year 1991, as per the given 'Terms of Reference'. The 3<sup>rd</sup> Social Audit being reported, for the period 1991 - 2001, was conducted during the period 2002- 03 within the framework of the same 'Terms of Reference' as that of the 2<sup>nd</sup> Social Audit.<sup>64</sup>

Subsequently, Indian Tobacco Company (ITC) published its social report in 1978 that discussed the company's social responsibilities in three different aspects: nation orientation and economy; nation and people; and nation and the society. From 1970-80 many public sector units like Cement Corporation of India (CCI) Limited, Bharat Heavy Electrical Limited (BHEL), Bharti Airtel Ltd., Oil and Natural Gas Commission (ONGC), Mineral and Metal Trading Corporation (MMTC), Steel Authority of India Limited (SAIL) and Oil and Natural Gas Corp Ltd., Tata Consultancy Services, Suzlon Energy Ltd., Reliance Communications Ltd. India Limited have prepared 'social income statement' and 'social balance sheet' along with their financial statements depicting their social performance and corporate growth together in their annual report.<sup>65</sup>

In 2012 annual report, Tata Steel reaffirmed its policy towards social responsibility and social auditing. Tata respects and protects human rights both within and outside the workplace through the application of frameworks such as SA 8000 and the United Nations Global Compact based on the Universal Declaration of Human Rights and ILO conventions. Tata Steel's commitment to human rights is reflected in its Human Resource Policy, Procurement systems, Affirmative Action Policy and Social Strategy, all of which are aimed at fostering socio-economic empowerment through inclusive growth. Tata Steel's CSR and Accountability Policy upholds applicable laws while dealing with stakeholders, avoiding any direct or indirect complicity in the Infringement of fundamental rights.<sup>66</sup>

### VIII Conclusion

Social audit is emerging as one of the tool for the measurement of the company's performance on corporate social responsibility and also an instrument of improvement of brand imaging. It evaluates measurable goals intended to help your business meet the expectations of the stakeholder groups have regarding your social and environmental responsibilities. Balancing social responsibility with business performance is imperative in the early 21st-century business arena. The term 'social audit' is often used to encompass a wide range of approaches to measuring, assessing, and reporting on corporate social, environmental, and ethical performance. Social auditing is not only about adding to what is already on our plates, it's about taking a more organized and high impact approach to meet the business objectives that we already have. The Social Auditor will work on the components of a company's Social Policy (Ethics, Labor, Environmental, Community, Human Rights, etc.), and for each subject, he/she will analyze the expectations of all stakeholders.

<sup>63</sup> *Supra note 72, at 6.*

<sup>64</sup> *Id., at 3.*

<sup>65</sup> Deepa P, "Social Audit - Indian Experiences," in B Sujatha (ed.) *Social Audit: Concept and Practices*, 157-169 at 159 (2006).

<sup>66</sup> 105<sup>th</sup> Annual Report 2011-2012: *The Cornerstones of Sustainability*, at 50. <[http://www.tatasteeleurope.com/file\\_source/Functions/Finance/Documents/annual-report-2011-12.pdf](http://www.tatasteeleurope.com/file_source/Functions/Finance/Documents/annual-report-2011-12.pdf)> Accessed on October 02, 2016.



With the impact and impingement of corporate sector activities on human rights and to enforce the UN Human Rights Norms for Business some sort of independent (social) auditing systems have become manifest especially in relation to the labor force. Such systems invariably include company-based monitoring programmes, global corporate auditing services, industry based initiatives, NGO programmes, and accreditation and certification systems. These seems to go along with existing national inspection programmes so as to respond to some of the weaknesses that have come to the fore in the working of national regulations. However, the core for them is the inspection of company's social policies and standards carried out by MNEs, NGOs, commercial auditing firms, academia and trade unions.

Presently, most of the developing countries are facing another vital issue regarding social auditing is: where would the standards for social auditing come from? Admittedly the practice of social auditing as compared to financial auditing is still at an nascent stage and a lot is required to be done to use this instrument not only for the benefit of the labour but it is a potent tool which can help the company to develop an image in the global market.