Corporate Social Responsibility Audit: An Exploratory Study

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Abstract

Given the recent advent of Corporate Social Responsibility (CSR) in the economy, the positioning of a company with regard to corporate social responsibility is critical. This research examines the feasibility of developing a new corporate social responsibility auditing system based on the review of current CSR literature and interviews conducted with a number of established Corporate Setups across U.A.E. The aim primarily is to create a model for corporate social responsibility auditing that is compatible with the prevailing audit system and ready to implement. The findings of this research, together with the crucial factors identified in the literature review of CSR, suggests a conscious alignment of CSR initiatives with conducive strategies that will allow corporations to efficiently and effectively implement their CSR objectives to create a sustained and perpetual impact.

Keywords: Corporate Social Responsibility, Auditing

Introduction

Companies need to think beyond making payroll and acquiring the next customer to thrive in an unpredictable and circling cycle of economy. They need to integrate socially and environmentally responsible corporate culture into their business operations to achieve success. According to Morimoto, Ash and Hope (2004), companies, especially those operating in global markets, are increasingly required to balance the social, economic and environmental components of their business, while building shareholder value. Research shows that companies gain enormous recognition both socially and internationally when they incorporate social causes and initiatives into their cultures, values, and business strategies. The augmenting customer preference for social responsibility indicates the significance of inclusion of such philanthropic activities in enhancing a business.

In Brundtland's (1987) report, three aspects of sustainable development are highlighted: social, economic and environmental. It is important to mention here that participation and responsibility of a society as a whole for a social cause or event are viewed as key elements in achieving sustainable development, which again bespeaks the close connection of social responsibility with the concept of sustainable development of the corporate. However, it is arguable that existing methodologies do not gauge how socially sustainable an organization is or how well to invest responsibly and focus on investing profits into community life and saving the environment. Consequently, progress towards sustainable development necessitates businesses to evaluate their performance periodically against the concerns of stakeholders on social, ethical as well as environmental issues. Research, however, shows gap between organizations' awareness of CSR and their intent to implement it. Rettab, Brik, and Mellahi (2010) in a survey conducted by Dubai Chamber ascertained a high level of awareness of CSR, but they found less than 10% of responding companies practicing CSR.

According to a report published by Price (2012), a CSR audit is a formal strategic process that helps measure a company's actual social performance against the social objectives it has set for itself. The audit hence equates how the firm's decision-making, business conduct, missions, guiding principles, employee interests, and stakeholder objectives are aligned with its social responsibilities. Companies that take an active role in promoting their corporate social responsibility programs are generally viewed more favorably than those without highly visible programs. Setting goals and a vision for the company that thinks and acts beyond products and profits definitely provides a favorable image for the business with which consumers will be more eager to engage. Corporates looking to distinguish themselves in their market space start with an audit to help them create new social-cause-marketing initiatives. Though considerable debate and discussions are being done on corporate social responsibility audits, no prescribed system exists for the implementation of the same. Through this research, a model can be drafted that aims at the implementation of CSR Audits in order to ensure a refined execution of the same.

While the study aimed at understanding the existing structure of CSR and thereby developing a new system for its audit, it sought to answer the following research questions:

1) Is corporate social responsibility necessary for sustainable development of the company?

2) How does corporate social responsibility audit help a company's everyday business?
3) What strategies could be used to implement CSR effectively?
4) Can a model for CSR Audit be developed?

Literature Review

Corporate Social Responsibility: Definition and Strategy

The literature review indicates that corporate social responsibility still lacks a single and broadly accepted definition despite the widespread debate it has engendered. Dan Feldman (in Smith, 2007), who advises corporations on CSR, finds it necessary to define the term as a means to develop effective and sustainable standards. Dan Feldman (in Smith, 2007)highlights the fact that 'CSR has proven to be successful when its definition directs corporations to be responsible for improving working conditions, for meeting environmental standards and for improving the quality of life for employees, as well as engaging the public' (in Smith, 2007). Interestingly, a more recent study conducted by Giannarakis and Theotokas (2011) indicates that,excluding the period 2009-2010, companies increased CSR performance before and during the financial crisis in order to recover the loss of trust and enhance business activities.

A well-planned and effective corporate social strategy is needed for effective implementation of CSR, which can trigger a virtuous cycle. If companies make a substantial commitment to CSR for the good of the public, consumers in their purchasing decisions are more likely to acknowledge such a commitment. This purchase, then, spurs the companies' CSR activities, contributing to the sustainable development of both the company and society (Babiak and Trendafilova, 2011). Researchers and strategists have used different tools and concepts to formulate models of CSR strategy. However, 'structure of industry, internal resources of the firm, corporation ideologies and values, and the relationship with stakeholders' have been identified as the necessary elements of the corporate social strategy (Filho, Wanderley, Gómez, and Farache, 2010)**.**

Corporate Social Responsibility Audit

Price (2012) emphasizes that the CSR audit draws insight on the interests and objectives of the employees and stakeholders. Price (2012) further states that a detailed process is required for the implementation of a CSR audit and that a company can assess and position itself in the market starting out by scoring the company's performance in general areas such as employee benefits, customer satisfaction, stakeholder management, social media visibility, government relations and community involvement in social causes. It can then take a step ahead, incorporate its employee interests into the business plan, and find out what other companies are doing in a similar business space. Price (2012) then suggests that the auditing process may be conducted internally by the company, or externally by an outside consultant, which is more beneficial considering the minimal biases imposed by an outsider. Moreover, an outside auditor brings credibility to the evaluation. Once the CSR audit is complete, it may be distributed internally, or published depending on the company's mission statements and goals.

Methodology

To meet the objectives of the study effectively and objectively, a suitable methodology was adopted. This methodology included both primary and secondary sources for collection of relevant data. While extensive literature review was done to sift through related research, a sample survey of 100 respondents was undertaken in and around various emirates of the U.A.E.

The sample distribution of business sectors was: IT and Software (30), Consulting firms (60), Higher Education and Academics (4), and others (6).

A questionnaire was designed to elicit responses in the area of inquiry as set out in the objectives of the study. The questionnaires were administered both online and in person following a structured interview format. Every single one of the participants was requested to answer with their opinions and preferences for questions ranging from level of familiarity with corporate social responsibility to the need of an audit system for the same.

Using the information obtained from the survey as a basis, a few key findings were made and certain decisive patterns in the preferences of employees and employers were noted separately. The data was analyzed in detail to bracket the various benefits of implementation of CSR audits and evaluate the reasons for the absence of such a measure. The obtained key findings have been enlisted in the following section, and later in the paper a few suitable suggestions have been offered to its appropriate execution.

Findings

Statistical analysis was used to test the relationship between corporate social responsibility and Sustainability. Chi-square tests were used to find the relationship.

Corporate Social Responsibility	Sustainability		
	Yes	No	Can't say
Impression Management	83	12	5
Beneficiary positioning	78	11	11
Purchase Intention	80	14	6
Product categorisation	85	13	2

Table 1: Relationship between Corporate Social Responsibility and Sustainability

The table above (Table 1) shows the results of a survey conducted to determine the relationship between corporate social responsibility and sustainability. The chi-square statistic is 7.7558. The P-Value is 0.256543. The result is not significant at $p < 0.05$. Using the Chi-square statistics, it is inferred that corporate social responsibility is considered to be a social strand to sustainability.

The results of the second research question *How does corporate social responsibility audit help a company's everyday business?* indicate that corporate social responsibility audit does affect a company's everyday business positively. Of the 100 respondents who participated in the survey, 79% felt a CSR audit has a highly positive effect on a company's working atmosphere. Overall 65% of the respondents faced challenges at work due to a high workload and low salary, factors indicating lack or ineffectiveness of CSR policies. The respondents'

suggestive measures to rectify these issues fell under the category of CSR audit. Twenty nine percent (29%) perceived that improving data collection methods, measurement and filing systems can significantly improve their productivity and performance, while 57% believed that involvement of employees in the decision making process could be the altering change. Thirty Six percent (36%) felt that financial incentives from government would encourage the company to implement CSR, whereas 43% suggested an award scheme for companies nationwide or regionally to promote CSR. The trends unequivocally show that motivating and relinquishing control to the employees accompanied by encouraging critical thinking can bring in maximum satisfaction among the workforce. Without breaking the disruptive organizational and behavioral patterns that exist within an organization, a corporate cannot move forward in CSR (Ancos, 2015). Consequently, periodic appraisals and feedback systems should be devised in order to reduce the gap between the established hierarchies within an organization. Though, it may not seem very important, such proceedings cement a bond among the workforce without which any corporate system can perish. Hence, a CSR audit can reveal any such existing breaches and pave for a trustworthy, sensible and reliable corporate working atmosphere.

In response to the third research question *What strategies could be used to implement CSR effectively?, m*ost of the responding companies including those that did not have any CSR initiatives, acknowledged the significance of these initiatives and felt that CSR strategy is indispensable to successful implementation of these initiatives. As stated by McElhaney (2009), most companies understand that CSR strategy is an important aspect of their business, yet for the majority of those engaged in it, their CSR initiatives are not linked to their business goals and competencies. This is a major reason for the CSR strategies to be vague, unfocused, and therefore ineffective. The companies agree that a certain course of action is required for an effective implementation of the CSR initiatives. According to the survey, the commitment, on the part of the leadership and management, towards the CSR activities needs to be the first and foremost strategy of corporate social responsibility, followed by the alignment of the strategy with the goals and competencies of the organization. A good CSR strategy should also focus on the interests of customers and employees of the organization and make sincere attempts to engage them in company policies and vision. This would increase the stakeholders' satisfaction with the organization's governance and culture, and also enhance the organization's image and reputation. An initiative or a strategy is more effective when the outcomes are measured and accounted for. Therefore, a system of auditing is needed to measure the impact of CSR strategies. In order to spread the CSR concept and value throughout the organization and to have the desired CSR behaviour, the auditing system should be integrated into the governance, management, and performance systems of the organization (McElhaney, 2009).

The last research question was *Can a model for CSR Audit be developed?* There are various existing models of CSR auditing, but not a single model, which can be applied universally. In the background of the above discussion and on the basis of the research conducted, an attempt has been made to develop a model of auditing system which is compatible with the prevailing auditing system, as well as with the corporate governance process. According to Morimoto, Ash and Hope (2004), three out of six key factors in achieving significant CSR are good corporate leadership, greater priority for CSR at board level and good stakeholder management. Thus, a CSR Audit system needs to integrate these factors through direct involvement of corporate leadership, management and stakeholder into CSR and its

measurement procedures. Such a system would lead to a Corporate Office System of auditing, which is also supported by McElhaney (2009). Even the outcome of the survey suggested an adoption of corporate office system, such as the Board of Corporate Auditors, to implement a CSR Audit. A vast majority of the respondents (89%) suggested that the Board should have four members, including two outside corporate auditors. Responses support involvement of both internal and external audiences in the measurement process. The system can have the CEO and COO as the leaders of the operating divisions in a system of mutual check and balances, with the CEO principally in charge of overall management and strategy, and COO in charge of operations. Additionally, the Chairman of the Board can lead meetings of the Board of Directors and Shareholders. The structure can be strengthened further by separating and clarifying the respective roles and authority of CEO, COO, and Chairman of the Board.

Four Audit committees can be established as advisory bodies to the Board of Directors as follows:

Social Activities Committee

This committee should be responsible for organizing and auditing activities that can harness a positive image for the company both in the social domain as well as inside the walls.

Safety Committee

This committee should inspect activities such as keeping workplaces and machines clean, measures to reduce the level of noise and dust at the workplace, and spread awareness about mandatory safety procedures.

Environmental Committee

Activities like Monitoring the carbon footprint count, using green power for electricity, organizing and sponsoring walks and marathons for social causes, etc. fall under this committee.

Risk Management Committee

A constantly evolving economy requires a risk management force to survive and sustain the blows and booms.

These committees can be formed by knowledge or experience based grouping of the existing workforce; or, depending on the revenue and financial viability of the respective company, a skilled governance group can be hired. To further increase impartiality and limpidity of corporate governance, nomination committee, compensation committee, governance committee and compliance committee can be established. Following deliberations, these committees will provide advice to the Board of Directors with regard to such matters as personnel issues, financial strategies, compensation of directors, the governance system, and other related issues. The Compliance Committee will work to achieve the higher level of a rigorous governance system. These committees should be composed of four outside directors with one or more corporate auditors participating as observers. It is important to mention here that the proposed model is not a "one-size-fits-all' model. This model can be customized to cater to the needs, structure, and operations of an organization.

Conclusion

This study has shed light upon the importance of CSR in the sustainable growth of a company and its significance in everyday business, highlighted the significance of CSR strategy in the successful implementation of CSR initiatives, and developed a model of CSR audit system, that can be readily implemented by a well-structured company. Ample suggestions have been offered in order to improve the transparency and impact of corporate social responsibility while a few key findings have been enumerated.

Given the prodigious tug towards CSR, the real question is   not whether a corporation engages in CSR, rather what the best way forward is for crafting CSR programs that reflect a company's mission statements and business values, while addressing social, humanitarian and environmental challenges. The employees of a company are most affected and benefited by CSR policies which should be projected as the image of a company that takes its form from the inside out, and not vice versa. However, CSR Audits are mostly done for public image than on moral grounds. With the cost of implementation being the most hindering factor while considering the many disparate drivers of CSR within a company and differing motivations underlying various initiatives, it is naive to expect a company to somehow knit it all together into a business strategy. While some CSR elements will lend themselves to such an exercise, many others will not. Instead, focusing on bringing discipline and structure to the multitude of fragmented components will prove less futile.

The Dubai Chamber of Commerce and Industry (2013) has initiated efforts to provide subsidies for CSR activities in 2013. This should encourage the Small and Medium Enterprises's to come forward and accept this otherwise expensive governance. Accommodation incentives, educational provisions, improving data collection and filing systems and yearly bonus are the most appreciated CSR activities. The study shows that implementing CSR Activities and Audits will bring 70% more profits a year from its conception. Government subsidiaries, along with active employee participation, CSR can revolutionize the business and working atmosphere today.

Despite its wide popularity, CSR is still only adopted by the elite few. The study clears the misconceptions and aversions curtailing its conception by providing a model that can be initiated readily and implemented effectively.

Limitations

The study is limited to survey conducted among few companies of UAE with a small sample size. A more qualitative research approach with a larger sample of respondents needs to be carried out to explore the utility of CSR Audits. Moreover, the study focuses on a generalized model of CSR Audit for large enterprises, having a board of directors and operators. It would not be applicable to Small or Medium sized enterprises. Furthermore, it does not elucidate any method or procedure as to how to conduct the audit.

Future Work

This research has examined and established a criterion to initiate corporate social responsibility along with a model for its audit implementation, with the help of an open survey of corporate workers in and around U.A.E. However, the model is restricted in its usage only in large enterprises. Therefore, the further work in this topic can be to develop size specific models

for the implementation and conduction of CSR audits in Corporates, as a generalized model might not bode well in its effective execution.

Acknowledgment

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