

# A Comprehensive Audit of Corporate Social Responsibility

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As enterprises expand globally, the social value of their operations is assessed on the full range of their contribution to society. Enterprises must be profitable to succeed, but they also should strategically align their operations so far as feasible and sustainable in order to address related social needs. This alignment includes not only the beneficial design and quality of goods and services an enterprise produces, but also enhancing the beneficial effects that its full range of business processes, systems, and practices have on society. A comprehensive enterprise corporate social responsibility (CSR) audit is based on two comprehensive social systems models—one of society as a whole and another of the corporate organization. By juxtaposing these two models—which are mirror images of each other—an enterprise can identify various points where its activities intersect with relevant social needs and can configure its operations so far as feasible to alleviate pressing social issues. Using a comparative cost-benefit analysis, the enterprise determines which systems, processes, and activities need to configure or adapt in order to better address the societal needs that are most critical for its success. They may require the enterprise to re-design products or services, develop new activities or desist in others, or reconfigure processes or systems. Thus, enterprises must decide which options are most feasible in light of the societal benefit they are likely to produce. As creatures of society, enterprises have much to gain by strengthening civil society and addressing its most pressing needs whenever possible within the limits of its commercial mission. What action to take depends upon the firm's cost-benefit analysis.

*Keywords:* corporate social responsibility (CSR), enterprise audit model, social process model, corporate culture, corporate process.

## Introduction

Throughout the world, private enterprise plays a dominant role in building societal wealth and in furthering socio-economic development. Disciplined by the economic incentives of an increasingly free and competitive marketplace, private enterprise of every size contributes—directly or indirectly and intentionally or not—three types of societal value:

- Transforming creative ideas into innovative solutions through products and services that sustain life and

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improve the standard of living;

- Mobilizing labor, technology, and capital to build productive wealth for present and future generations;
- In the way it functions and conducts operations, generates “spin-off”, “spillover” and collaborative effects (externalities) that benefit society through improvements in knowledge, technologies, methods, and skills, and community improvements.<sup>1</sup>

Highlighting these effects through an enterprise audit of corporate social responsibility (CSR) should enable firms to align their operations more effectively with societal needs and priorities.

The CSR enterprise audit model proceeds from the premise that private enterprise—as a social system and institution—is dependent on societal recognition and the support of social institutions for its success. As a creature of society, it also mirrors many of the dynamics and must come to terms with many issues of society at large (Tönnies, 1887). If public education is weak, for instance, enterprises suffer as well in the quality of their work force. At the same time, private enterprise distinguishes itself from society at large through its private ownership, singleness of purpose, relatively limited resources, profit-oriented necessity, and its dependence on pricing signals from the market place. Within these parameters private enterprise has an enlightened self-interest as well as the moral imperative to align its activities and organizational functions with the general welfare of society (Bowen, 1953). Through an enterprise audit, companies can ascertain what they reasonably can do—within the parameters of their operations and subject to their competitive positions in the market—to address recognizable social needs. However, they must have the will and flexibility to experiment and to align their operations to affect these needs.

Much has been done to identify the various ways in which CSR initiatives may enhance business value, performance, and reputation. In addition to the substantial “business case” for CSR (Holliday, Schmidheiny, & Watts 2002), a 360-degree CSR enterprise audit provides the means for companies to benchmark and enhance their CSR contributions:

- Identifying ways in which an enterprise presently is contributing to the betterment of society. These contributions often go unrecognized and unappreciated in the midst of meeting operational deadlines and in the heat of public policy debates in business activities;
- Identifying opportunities to better align enterprise systems with societal needs, possibly in collaboration with other non-governmental as well as governmental organizations;
- Sensitizing employees to the importance of CSR, and engaging them in the effort to identify opportunities for the enterprise as well as to become individually involved in addressing social needs outside the workplace;
- Identifying ways in which institutions throughout society—in addition to the enterprise itself—could better address social issues and improve the general welfare, whether through collaboration with stakeholders or through regulatory or other changes in laws that would enable or induce private enterprise to better align its operations with the general welfare.

No simple formula, such as the “invisible hand” of free market forces, will enable an enterprise to better align its private business interests with those of the public. In the short to the medium term perspectives of the competitive marketplace, multinational businesses face a highly diverse array of institutions, market

<sup>1</sup> As used here, “spin-off” refers to a by-product of a process, systems, or activity of an enterprise undertaken for other reasons (e.g., hiring locally benefits the local economy through the “multiplier effect”); “spillover” is an uncompensated valued effect of an activity (e.g., hiring locally gives greater stability to family life; and “collaborative effects” are social synergies that result when companies coordinate their operations with societal needs and initiatives, whether governmentally or civically inspired (e.g., firms advising vocational schools: training for skills which are needed to secure jobs in their operations).

characteristics, regulatory requirements and social issues they must understand in order to operate successfully and to optimize the “spin-off value” of their operations for society (Porter & Kramer, 2006). These issues often materialize as market imperfections, the misalignment of property rights, weaknesses and biases in legal systems, public policy and infrastructural limitations, dislocation effects from ongoing changes in economies, weak ethical norms, mistrust of and among commercial and public sector decision-makers, and low societal expectations (World Bank, 2005).

These country environmental shortcomings represent both challenges and opportunities for responsible enterprise initiatives. International business is conducted within and among a variety of imperfect country/societal settings, each of which exhibits distinctive socio-economic needs and challenges such as those just listed. The genius of management should, within the limits of corporate profitability and sound business judgment, configure company operations in ways that constructively complement local conditions, in terms both of the norms of society and of socio-economic development. As will be seen, this imperative does not impose heroic actions on an enterprise, but merely challenges it to adopt an enlightened long-term view of its role in society. This requires each enterprise to carefully assess how it operates and how it could orient its operations to contribute more effectively to socio-economic development. As an added bonus, the audit of operations will reveal ways in which enterprises already are contributing to the welfare of society.

### **Enterprise Audit Models and Process**

The following outlines a four-step sequential process for conducting a CSR 360-degree enterprise audit. It must be undertaken separately for each country of operations, because a firm’s operations and its social environment are distinctive for each country.

Step 1: Reviewing the strategic imperatives of the enterprise—its mission/vision, requisite core competencies, and working assumptions.

Step 2: Using the nine major dynamics of the “social process model”, map the range of distinctive societal needs for each country where the enterprise has operations.

Step 3: Using the nine major dynamics of the “corporate process model”, systematically review all facets of enterprise activities (including systems and processes) in light of the firm’s strategic country objectives to determine at which points opportunities exist for aligning these activities to (better) address societal needs.

Step 4: Using a comparative cost-benefit analysis, determine which enterprise activities to configure or better adapt to address societal needs.

#### **Step 1: Review the Strategic Imperatives of the Enterprise—Know Thyself**

The first step in preparing for an enterprise audit is to review the firm’s mission/vision, strategies, and the core competencies underpinning its operations. This should be done within the context of the firm’s industry and business model. An essential component of this review is to specify—with respect to each country where the enterprise does business—the working assumptions that the enterprise is making about the country infrastructure, work force skills, societal support systems, and the business environment. Within this framework, an enterprise can assess which social conditions are most critical for its success, at what points its operations most closely intersect with social needs, and the relative value of trade-offs among alternative CSR opportunities and activities.

Without this clarification, there is danger that an enterprise will stumble into a disjointed array of CSR

activities that are neither the most effective, given the firm's capabilities, nor sustainable over the long term. Enterprises are pressured continually from all sides—governments, activists, stakeholders of all kinds, and the media—to contribute to well-meant causes and social well-being. Another pitfall of CSR is to reserve corporate action for the “squeaky wheel”. This turns CSR into a public relations gambit that cedes CSR decisions to activist stakeholders and other petitioners. Unhinged from enterprise strategy, CSR falls prey to budget cuts, shifts among executive agendas, and the next great idea.

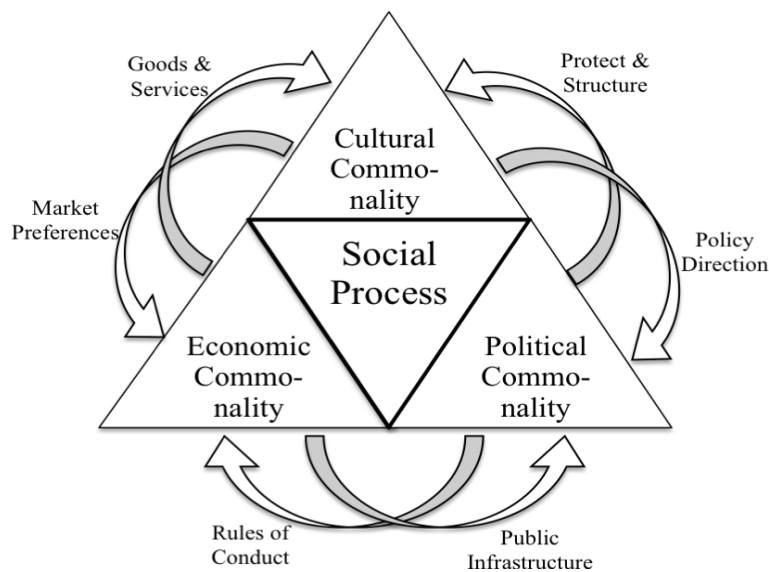
Enterprise strategy clearly defined, therefore, is essential for selecting sustainable and effective CSR initiatives at the country level. Focusing CSR through the lens of firm strategy also enables the enterprise to:

- Staying in touch with trends affecting the enterprise and the firm's social impact society;
- Encouraging employees to recognize, appreciate, and possibly engage in arenas of society that affect the enterprise, including identifying likely partners to work with;
- Anticipating societal needs and formulate ideas for new products and services;
- Enabling the effective coordination and integration of CSR activities as a whole;
- Providing a clear rationale and objective criteria for assessing and costing-out competing CSR demands and opportunities;
- Ensuring the sustainability of corporate interest in CSR activities.

The next steps involve complementary models of society (Step 2) and the corporate enterprise (Step 3), which enable firms to undertake a comprehensive CSR audit.

### **Step 2: Map the Range of Distinctive Social Needs for Each Country of Operations—By Referencing the Nine Dynamics of the “Social Process” Model**

The task of acquainting a firm with the societal needs of any country is vast. It is narrowed through the strategic review discussed in Step 1 and through the discipline of the “social process” model that follows. This enables the enterprise to focus on those social conditions that are most critical for its success, whether they relate to greenhouse gas emissions, health care, or some other concern.



*Figure 1. Complementary social realms.*

**Social process model.** The social process triangle (SPT) model, described in Figure 1, provides a frame of

reference for identifying societal needs and for tracking changes in the social environment. Its triangular multi-level framework—interrelating economic, political, and cultural dimensions—is designed to encompass the essential dynamics of any society. As such, it provides a comprehensive template for reviewing social conditions, assessing how they interrelate and affect each other, and identifying related institutions (Mann, 2006).<sup>2</sup> SPT presents society as three major interdependent realms—economic, political, and cultural. Each realm consists of social dynamics or variables, which reference social functions present in some form in every society (Bell, 1976). This tripartite model is intended to encompass every facet of society, recognizing that the manifestations of these dynamics will vary by society, the way they interrelate and their institutional characteristics. The model provides the framework for a systematic review of society.

The triangular design of the model reflects the inter-relatedness of social dynamics. Thus, economic commonality characterizes the life-sustaining (foundational) activities of every society in the form of goods and services and of the infrastructure. Political commonality, by contrast, encompasses the dynamics of governance and public institutions. These dynamics produce rules and decisions that guide and regulate how individuals and organizations produce and distribute wealth, whether in a market-based or command economy. They generate rules and institutions that protect and promote the (cultural) values, practices, and behaviors essential to society, e.g., marriage, family, religious worship, education, etc.. Of utmost importance, the cultural commonality provides direction to the other two realms. Its dynamics freight the values that shape daily patterns of interaction and society's identity and mindset (Bell, 1976, p. 36). In market economies, cultural values guide the production of goods and services; in a democracy, they become embodied in laws and social policies.

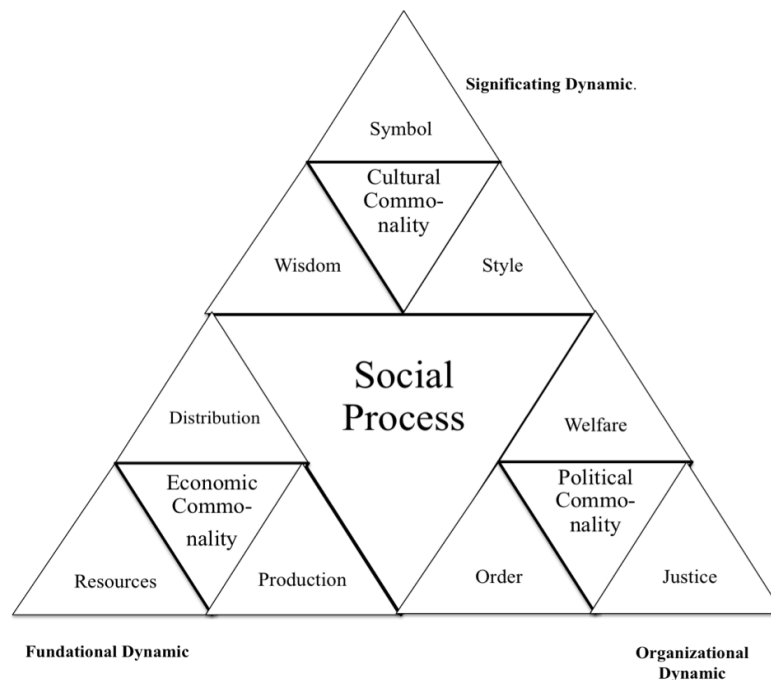


Figure 2. Multi-level social process triangle: Nine essential dynamics.

<sup>2</sup> The social process triangle (SPT) was conceived during the 1970s as part of the grass-roots community development work of the Institute of Cultural Affairs, a multi-cultural non-governmental organization (NGO) that undertook community development projects in every time zone across the world, including India, Indonesia, and Kenya. As summarized here, the model contains some modifications in nomenclature by the author.

Moreover, each of the three realms of the social process triangle is characterized by its own subset of social dynamics (see Figure 2). The rationale used in defining the three major realms (i.e., foundational, organizational, and significant perspectives) guides their sub-division into three interactive dynamics. These three sets of fractals define the nine-dimensional multi-level triangle. Thus, the economic realm consists of a generic value chain of resources, production, and distribution; the political realm is concerned with a system of orderly rule, administering justice and ensuring the welfare of the citizenry; and the cultural realm defines how societal wisdom is nurtured, the style of how people interact, and the sacred values symbols of societal identity.

**Nine societal reference points.** For purposes of this paper, these nine individual dynamics provide a comprehensive set of reference points for assessing social issues of potential concern to an enterprise. Figure 3 provides an overview of how the dynamics relate to various functions of society. While these functions embody discrete social dynamics, a moment of reflection will demonstrate that they are intimately interrelated with each other and provide a comprehensive map of social dynamics and a checklist for surveying societal needs.

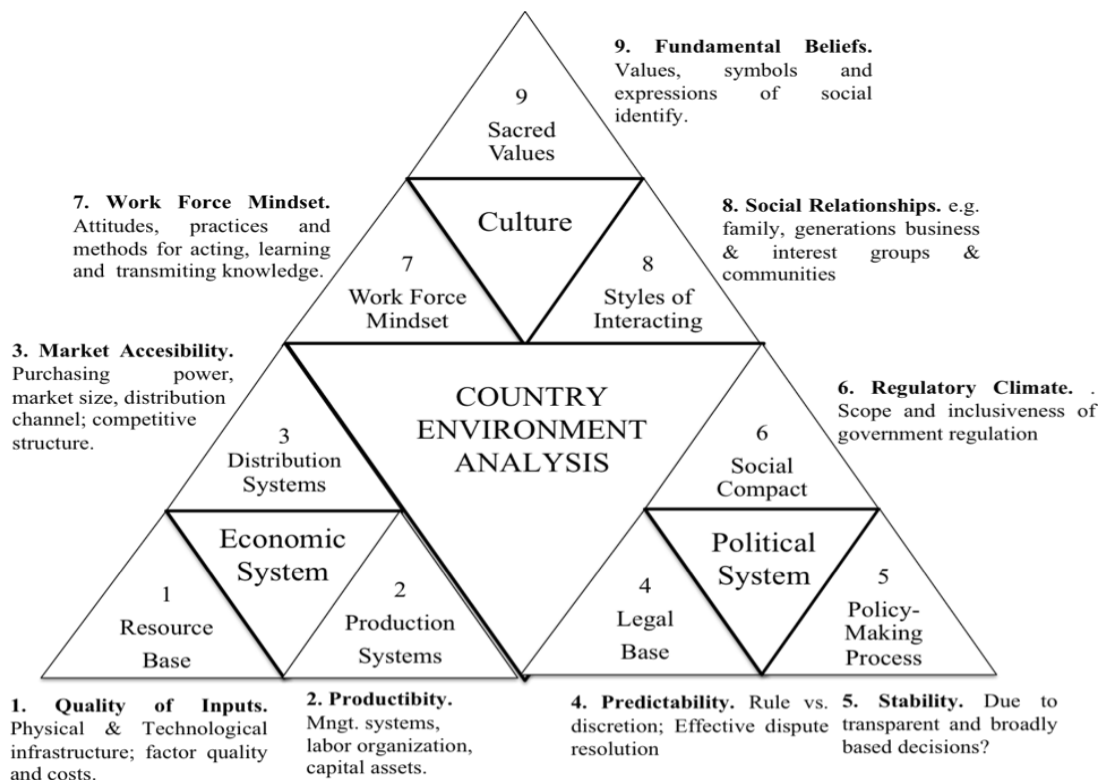


Figure 3. Nine societal benchmarks.

**Survey of societal needs.** The nine social process dynamics provide a checklist for surveying existing societal needs and for mapping where they are likely to intersect with enterprise activities. This assessment is sharpened by reference to the enterprise's working assumptions about its operating environment.

### Step 3: Systematically Review All Facets of Enterprise Activities to Determine How to Better Align Them With Societal Needs

The third step in an enterprise audit is to examine the processes and activities of the enterprise itself. The first imperative of any enterprise, as an integral part of society, is to "do no harm". So, any business activity that may pollute, create hazardous conditions, or produce defective products, for instance, must be avoided and

any damage quickly rectified in keeping with good industry practice and state-of-the-art technology. As industry practice and technology are continually evolving, companies should be expected to use “best efforts” to monitor and improve their products and services and the effects of their operations.

**The “corporate process” model: A mirror image of society.** A corporate audit, employing the corporate process triangle (CPT), may uncover opportunities to better align a company’s activities with the needs of society. It also provides the enterprise with a baseline for judging the effectiveness of its present contributions to society. As previously discussed, CPT premises the enterprise as a mirror image of society, its social dynamics, and its social issues. In many respects, organizations are society “writ small” (see Figure 4) like society, organizations function as “open systems”, whose parts interact with—and are shaped by—the larger environment. Further, as systems, organizations are defined—and their effectiveness largely determined—by the way in which their parts relate to each other.

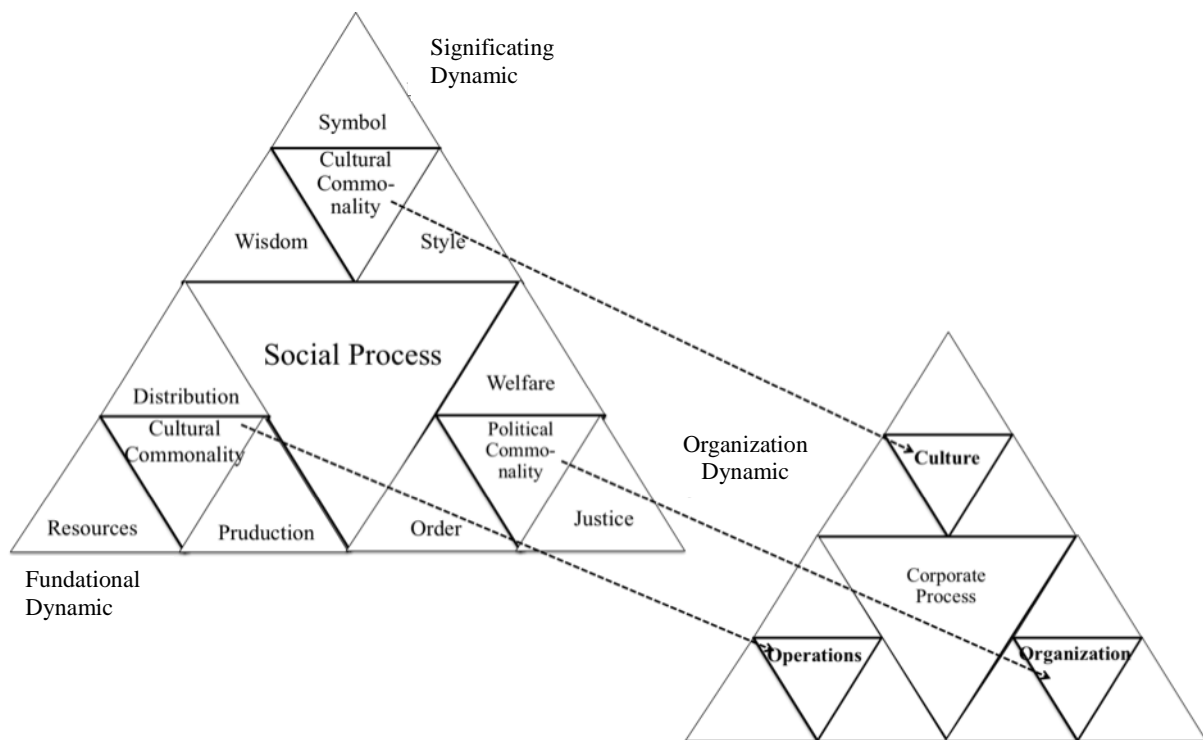


Figure 4. Organizations as mirror images of society.

As a framework for delineating organizational systems, CPT (see Figure 5) consists of three major dynamics—corporate operations, corporate organization, and corporate culture. These correspond to the three major dynamics of the social process triangle. CPT also follows the same rationale at all levels: The lower left triangle in each realm reflects the foundational dynamic, the lower right triangle the organizational or decisional dynamic, and the upper triangle the significating dynamic.

Despite the similarity between social and corporate dynamics, the enterprise system has its own nomenclature, as follows:

Corporate operations form the heart of a firm, i.e., its productive capability, whether these are goods or services. This dynamic is “foundational” for the process as a whole, because without it the firm has no output nor justification for attracting resources. The three sub-dynamics—resources (foundational), production





CPT provides a framework for mapping a firm's business processes, systems, and practices. This map enables a firm to identify those points of intersection where its activities and the conduct of its business may be configured to contribute more effectively to addressing social needs. Changing the way a firm functions, of course, typically requires creative thinking and experimentation in order to ensure that changes in systems and practices are doable, economically viable, strategically sensible, and—as a result—sustainable by the enterprise.

**Auditing enterprise activities.** In conducting the third step of an enterprise CSR audit, the first task is to determine where and how the firm's activities intersect with society. The nine CPT dynamics provide a comprehensive map both to identify points of intersection and, then, for discerning how its systems and processes could be re-configured to better address the array of social needs it detected in its SPT country analysis.

This step entails interactively vetting the two models to determine what changes the enterprise could most usefully make in the way it conducts business. It can be undertaken through workshops involving a representative group of employees drawn from the various departments of the enterprise, which as a group are knowledgeable about all nine dynamics and are sensitive to social issues. Both sides of the CSR ledger should be considered, i.e., present and potential benefits for society and the enterprise.

The following outline is intended simply to illustrate how CPT can be used to map an enterprise CSR audit. A firm's activities must always be customized to some extent to each society. They should be tailored, where possible, to have mutual benefits for enterprise and society.

*Corporate operations.* Corporate operations refers to the in-sourcing, production, and marketing systems used by enterprises to transform inputs into goods and services and deliver them to customers. It encompasses what is generally referred to as the enterprise "value chain", which can vary significantly by industry and firm. It consists of three dynamics:

(1) Resources dynamic refers to the process of sourcing or developing the primary factors of production needed to produce a firm's output, both goods and services. Examples include:

- Establishing standards for quality of inputs, which challenge suppliers to improve their skills and those of their suppliers;
- Assisting new and emerging suppliers to improve their production and management techniques, e.g., Sears, Roebuck & Co.'s mass merchandising operations in Latin America 1950-1970;
- Establishing standards for production processes, e.g., for labor and wages and benefits, reprocessing of faulty parts, and non-polluting production methods.

(2) Production dynamic refers to the process of refining and transforming resources into capital and consumer goods and services. It encompasses both the hardware (i.e., equipment) and software (i.e., management systems and techniques) of the production process, and the mobilization of personnel to accomplish the various tasks. Examples include:

- Lowering waste of materials and utilities (water, energy) used in production and other corporate activities, e.g., educate employees how to reduce waste, whether on the shop floor or in the company cafeteria;
- Establishing competition among employees for eliminating polluting activities of any kind in the production process;
- Working closely with technical schools and business schools to enhance mutual learning and teaching about best practices.

(3) Marketing dynamic refers to the process of defining, anticipating, creating, and fulfilling customers'

wants and needs for products and services. As the final stage in the value chain, it encompasses all aspects of ensuring that customers experience added-value in the acquisition and use of products and services. Examples include:

- Remaining closely in touch with consumers and their behavior in order to design and monitor the effects of products (product stewardship), so as to ensure they have maximum health and safety features, are energy-efficient, minimize pollution potential (e.g., McDonald's use of bio-degradable wrappers), can be readily repaired (rather than simply discarded at the first breakdown), etc.;
- Designing products that can be purchased in smaller lots for those on lower budgets. This may involve alternate business models (Prahalad, 2005);
- Promoting honesty in advertising, and provide content on packaging that guides intelligent consumer choice.

*Corporate organization.* Corporate organization refers to dynamics by which an enterprise designs, structures, governs, and administers its operations and functions and makes decisions about its future. It encompasses most aspects of traditional management functions (e.g., planning, organizing, motivating, staffing, and controlling), although these are in part shared with the operations and culture dimensions of the enterprise. It consists of three dynamics:

(1) Administration dynamic refers to the processes of monitoring, supervising, and disciplining the day-to-day operations of the enterprise throughout the range of its value chain with respect to inputs/outputs, budgets and financing, and corporate policy. It ensures that enterprise operations remain within the parameters of work-stated goals. Examples include:

- Establishing within the enterprise standards for bidding and the regular auditing of transactions to avoid the temptation to engage in corrupt practices;
- Further transparency within industries by working through industry associations to establish clear common industry standards for accounting and reporting to the public;
- Adopting generally accepted standards for environmental management (ISO 14001). Squeeze-out puffery from CSR reporting.

(2) Decision making dynamic refers to the process by which firms set their long-term directions, allocate corporate resources and balance the interests of major corporate constituencies. This dynamic will vary widely among firms, depending on whether they are closely or publicly-held companies and on their organizational configuration, e.g., entrepreneurial, machine or professional bureaucracy, divisional, "adhocracy", etc.. Examples include:

- Establishing measurable CSR outcomes for all facets of the enterprise that are integrated with corporate strategy;
- Establishing and nurture collaborative relationships within the industry and with non-governmental organizations to ensure environmental standards, e.g., Forest Stewardship Council for lumber producers and distributors;
- Working with business schools to ensure mutual learning and teaching about best management practices.

(3) Mission dynamic refers to the process of defining the business purpose and how the importance of involving and obtaining commitment from the full range of stakeholders. This process often entails trade-offs, for enterprise resources are limited compared to the aspirations of constituencies. Examples include:

- Developing health plans with local health care providers that meet the needs and salaries of employees;

- Hiring locally, where possible, to strengthen community ties and support local communities economically;
- Encouraging and following generally accepted labor standards (e.g., SA 8000),<sup>3</sup> responsible fishing (Marine Stewardship Council), and lumbering (Forest Stewardship Council) practices.

*Corporate culture.* Corporate culture refers to all aspects of the corporate process, which engenders values, fosters creativity, and generates meaning within the enterprise. It encompasses a common enterprise language, values, and philosophy, a sense of vocation and commitment to enterprise operations, and ways of working and interacting with stakeholders and the public at large that build and reflect the enterprise's reputation. It consists of three dynamics:

(4) Learning dynamic refers to the process of individual and organizational learning and of transmitting and perpetuating the firm's philosophy (Weltbild) or understanding of "what makes sense". What is being learned and practiced is not simply applied skills, but methods of learning, thinking, operating, and interacting with the environment that are considered necessary to the firm's continued effectiveness. These are, to a certain extent, distinctive for each firm. Examples include:

- Establishing regular training schedules for all employees to ensure they are using their potential and increasing their skill level;
- Establishing a program for recruiting some jobs from among less fortunate but able persons;
- Challenging employees at every level to be innovative about the way they work in order to improve products and services, the firm's value to society and the environment, and creative thinking in others.

(5) Style dynamic refers to the process by which firms act out their working relationships, i.e., structuring work activities, making decisions, recognizing exemplary contributions, and conducting business with others. This is imbedded in every aspect of corporate life, being more action than words. Examples include:

- Establishing a strict code of conduct and actively educate employees on how they should conduct themselves honestly in all business dealing.
- Building trust among stakeholders and within local communities where the enterprise conducts operations, including respect for the local customs, values, and the living environment.
- Honoring both the letter and spirit of agreements in ways that promote mutual success of working relationships.

(6) Identity dynamic refers to the process of creating employee and organizational self-consciousness about the guiding values and social philosophy of the enterprise. These values and purposes may or may not be well articulated, and may be submerged under a barrage of advertising and public relations rhetoric. After the rhetoric is stripped away, these values and philosophy should be clearly articulated in the mission of the firm and exemplified in its working culture and relationships with others. Corporate identity generates both commitment among employees and projects an enterprise image that can be valuable for attracting new talent. Examples include:

- Instilling pride of workmanship and encourage employees to work to high standards;
- Encouraging employee involvement in local community services and activities;
- Collaborating with community organizations by investing in local community services, e.g., Starbuck's investment in housing, health clinics, and schools in coffee-growing communities (Starbuck's, 2006).

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<sup>3</sup> SA8000 is a social accountability standard based on the UN Universal Declaration of Human Rights, Convention on the Rights of the Child and various International Labour Organization (ILO) conventions.

#### **Step 4: Using a Comparative Cost-Benefit Analysis, Determine Which Enterprise Activities to Configure or Adapt to Better Address Societal Needs**

Step 4 is the final step in the enterprise audit. Using a comparative cost-benefit analysis, the enterprise determines which systems, processes, and activities identified in Step 3 to configure or adapt in order to better address societal needs identified in Step 2. As noted earlier, many of these modifications may have a direct effect on addressing societal needs, e.g., through the design of its products, services, or production processes, while others may be more indirect through “spin-offs” and “spillover effects”. They may require the enterprise to re-design products or services, develop new activities or desist in others, or reconfigure processes or systems, i.e., change the way the enterprise does business. The list could be substantial.

Enterprises must decide which options are most feasible in light of the societal benefit they are likely to produce. Some options may increase revenue or reduce costs, while others may do neither. Enterprises should be motivated to make changes where the economic effects on the firm are positive or at least neutral, and should be counseled to do so where the costs to society outweigh benefits to the firm. Moreover, an audit may reveal a mutuality of benefits: The many ways in which the enterprise already benefits society and how society benefits the enterprise. An audit may also disclose opportunities for enhancing social benefits by collaborating with private voluntary organizations and by reinforcing or complementing government initiatives. As creatures of society, enterprises have much to gain by strengthening civil society and addressing its most pressing needs whenever possible within the limits of its commercial mission.

### **Conclusions**

This CSR audit approach seeks to underscore the fairly obvious point that business enterprise, as a social institution, is an important vehicle of socio-economic development. Its creativity provides valuable social services and can fill niche needs that government cannot readily address. The widely diverse missions of business are a great strength for the economy and for CSR, because highly diverse perspectives will be brought to bear on societal needs, serving both commercial and social needs.

The social and the corporate process models are tools for enterprise self-examination. They provide a vehicle for mapping where the operations of an enterprise intersect and how they potentially affect society. These effects are typically beneficial but may have some adverse aspects. The CSR audit is intended to identify both aspects, so that the enterprise can take appropriate action. Examining the enterprise as a social system provides perspective for evaluating how organizational activities interact with each other and their impact on other “social” systems. In this way, enterprises can uncover new options. What action to take, of course, depends upon the firm’s cost-benefit analysis.

Another insight that emerges from a 360-degrees enterprise audit is the realization that many actions with CSR value also strengthen the firm’s competitive advantage. To a large extent, this depends on CSR activities being strategically focused. Being aligned with the firm’s strategy helps ensure their long-term sustainability. Activities without a strategic rationale—whether classified as CSR or not—are likely to enjoy only a short life span as enterprise personnel change and competition intensifies.

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