European Journal of Business and Management
ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online)
Vol.5, No.23, 2013


# The development of Corporate Social Responsibility (CSR) and challenges of Environmental and Social Reporting in Bangladesh

Md. Rashidul Islam[1*] Md. Salim[2] Tonmoy Toufic Choudhury [3*] Md. Mamoon Al Bashir[4]

1. Senior Lecturer ,Department of Business Administration, East West University,Bangladesh
2. General Manager,BASIC Bank Limited,195 Motijheel Commercial Area,Dhaka-1000,Bangladesh
3. Lecturer ,Department of Business Administration, East West University,Bangladesh
4. Doctoral Researcher,Business and Management Group,Aberystwyth University,Wales,UK SY23 3DD.

**Abstract**

Corporate social responsibility (CSR) has been recognised as corporation's strategic tools to response the social obligation and corporation's sustainability. The meaning and importance of CSR has been changed over time. At the inception, CSR was the obligation to pursue corporation policies and decision based on the desirable objectives and values of the society. But now corporate social responsibility is regarded as corporate sustainability and corporate citizenship. In this paper we have analysed content of 70 (Out of 123) audited corporate annual reports listed in the Dhaka Stock exchange of Bangladeshi companies. Realizing the importance of CSR we have attempted to find out the development of CSR, and formulate a strategic corporate CSR model for Bangladeshi Companies and justified the model compared with the international companies CSR activities. We have also identified the challenges of environmental and social reporting. We found that it is very hard to segregate environmental cost and social audit as they are arisen number of ways. The environment and social audit are not mandatory and should be reported in the notes to the financial statements.

**Key words:** Corporate Social Responsibility, Strategic CSR Model, Challenges of Environmental costs, Social Reporting

## 1. Introduction and Historical development of CSR

According to Bowen (1953) Social concern began to infiltrate management education after the Second World War with social responsibility first emerging as an academic topic in the 1950s. At that time corporate social responsibility refers to the obligations of businessman to pursue corporation policies and decisions based on the desirable objectives and value of the society. Davis (1960) demonstrated CSR from the managerial view point stating that CSR referred to those decisions and actions which are taken at least partially beyond the firm's economic and technical interest. Consequently Frederick (1960) pointed out that businessman economic operations should be fulfilling public expectations. McGuire (1963) drew a more concise definition by pointing out that business must accept social responsibility beyond the corporations' economic and legal obligations. Eventually Rachel Carson's book 'Silent Spring' published in 1962 and launched the worldwide environmental movement in the wake of environmental disasters brought on by corporate negligence and ignorance (Carson,1962).This book inspired massive social movements in America, Europe and as a result of this corporation social responsibilities began to gain ground.

According to Gray et al., (1996) recent history of CSR assumed to have started in the early 1970s. At this time The Nobel Prize winner Milton Friedman published an article under the provocative title "The social responsibility of business is to increase its profit" .General social responsibility was a major theme throughout the early 1970s. In 1970 saw significant changes in labour laws and labour union established in order bargain for labour interest and labour union become very strong. But at the late 1970s there was an economic recession. Post recessionary period there was massive unemployment and the power of labour union broken down. At that time major manufacturing company moved to developing country where they can find cheap labour. There were, however, some potentially positive developments notes during 1980s.This attempts to rewrite the employee - employer relationship offering share ownership of the company they worked. At this time legislation requiring more employment of the disabled, the increasing emphasis on race and sex equality and the legislative requirement to inform and consult with employees, could all be taken as positive as positive steps if one wished to do so. In the 1980s the social responsibility translated most directly to a responsibility toward community in the United States. However, this broad concern with community did not bed very deeply into other cultures until the 1980s.Community thus become very much the apparent theme of social responsibilities in 1980s.

Davis, (1973) and Mintzberg (1983) states that business has responsibility beyond just making profit. The contemporary author Johnson (1971) raised stakeholders view and considered managers' corporate social responsibility is utility maximisation rather than profit. Carroll's (1979) concluded that CSR should include business economic (to be profitable), legal (regulation-complaint), ethical (acting in a righteous and fair manner) and philanthropic (contributing to a broader civic society for educational, cultural or recreational purposes) responsibility. Cochran (1985) formulates a general model of corporation social performance (CSP) alongside Carroll model. Eventually in 1980s and1990s the corporate social responsibility receive much empirical attention(Wood,1991).Howken et al.,1999 publication of Natural Capitalism demonstrated that companies can combine positive financial results with pollution reduction, if they rethink certain procedures and use of materials. The natural capitalism theory focused heavily on resource efficiency, and advocated ways to exploit the market systems for environmental advantages. Banerjee (2002) promotes the idea of corporate environmentalism as a corporate strategy where environmental concerns are taken into account in a firm's core decision-making processes. He stressed the recognition of the natural environment's importance and legitimacy as a primary element of corporate strategy formulation as environmental problem arise from corporate activities. This integration of environmental concern into business strategy may help to build sustainability of the organizations. On a more inclusive level, Freeman (1984) proposed that the firm must meet the expectations of external groups or individuals who may have effect on the firms' operations. A more moral on the stakeholder theory is found in the corporate stewardship theory (Worrell and Appleby, 2000) which adds a new dimension to the CSR and business ethics debate suggesting that firms should exclusively focus on carrying out their social duties and responsibly without regard to the financial consequences of such acts. Jones (1995) introduced an instrumental theory for stakeholder management guessing that the high returns on regular and trusting interaction with stakeholders make firms strive for better ethical performance and give them significant competitive advantage. However, earlier philosophy of Corporate Social Responsibility (CSR) was regional, personal centred and philanthropic focus where as present concept of CSR is broad and diverse (Silberhorn and Warren, 2007).

From the above discussion I can conclude that the CSR concept evolution started with the concerns related to the damage created by business on environment and society at large by way of activity linked to their businesses operation. The prime reasons of developing CSR were 1.Pressure building up against the businesses, 2.wave of awareness by the society and the stake holders, 3. Realised responsibility by the businesses, 4. Development of Policies and identification of best practices, 5. Implementation of the policies, 6. Development of several programs to implement, 6.CSR Performance and Compliance Evaluation.

## 2. Definitions and interpretations

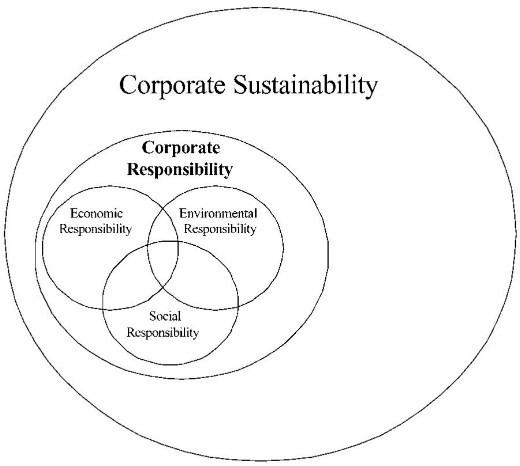
This section will define and interpret the term corporate social responsibility (CSR), Corporate Sustainability (CS), Corporate Citizenship (CS) and CSR disclosure practices within the business organisation.

### 2.1Corporate Social Responsibility (CSR)

According to Vaaland and Heide(2008) CSR is vital and relevant for a corporation and it is rapidly gaining importance all over the world. But The term CSR is not clear as it varies from industry to industry (Carriggan and Attalla, 2001).However to define CSR most of the scholars have focused on the three thematic area which are relationship between corporations and society, an ethical consideration of the corporations operation and its affect to the environment and interference with social and human rights (Vaaland Heide, 2005).Dow Votaw's (1972) comments on what CSR means still hold true today for the most part. He contended: "The term (CSR) is a brilliant one; it means something, but not always the same thing, to everybody. To some it conveys the idea of legal responsibility or liability; to others, it means socially responsible behaviour in an ethical sense; to still others, the meaning transmitted is that of 'responsible for,' in a causal mode; many simply equate it with a charitable contribution; some take it to mean socially conscious; many of those who embrace it most fervently see it as a mere synonym for 'legitimacy,' in the context of 'belonging' or being proper or valid; a few see it as a sort of fiduciary duty imposing higher standards of behaviour on businessmen than on citizens at large" (Votaw 1972, p. 25)According to The European Commission (2002) "CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis". However, definition of CSR has been changing time to time. Carroll (1979) has established a four part pyramid model to define CSR which includes economic, legal ethical and philanthropic expectation of the society. Following Carroll's four components it is observed that companies need to give some component at highest priority to produce goods and services by obeying prevailing law (Cowton, 1987; and Moore and Richardson, 1988).Another research conducted in Germany by Longnecker (1985) and concludes that "quality of life" issues were gaining highest importance together with quality, profit and growth. However, Pinkston (1991) concluded that legal responsibility had become highest ranked component in Sweden and Germany. O' Dwyer (2003) has pointed out that corporations have a tendency to interpret CSR in way which is consistent with the corporate goals of shareholders wealth maximization. Manignan and Ralston(2002) conceptualize CSR in terms of internal factors.

**2.2 Corporate Sustainability**

The concept sustainability offered by the Brundtland commission of the World Council on Economy and Development (WECD) as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs"(WCED,1987)".Academics demonstrated that corporate sustainability is the bigger aspect of corporate objectives(Marrewijk,2003).Actually corporate social responsibility is needed for the sustainable development of the company. Corporate sustainability relates the terms corporate accountability, corporate social responsibility in the following way.




Source: Source: Lassi Linnanen and Virgilio Panapanaan,

Helsinki University of Technology

Figure 3. General model of CS/CR and its dimensions.

According to Marrewijk(2003)Corporations should adopt the strategy of sustainable development due to two main reasons. The most important one is corporate challenge. There is no doubt that today business environment is challenging as working culture, technology is changing very rapidly. The second one is changing concepts of business, government and civil society. Nobody knows what will happen tomorrow but can predict about the future based on past experience. Therefore it is better to take preventive action against future possible change in the government, corporate culture and civil society in order for sustainable development. To build a more environmentally aware corporate culture involves short term costs, but can produce long term profits. In the UK large companies like Uniliver, Marks and Spencer, Tesco are giving priority for long term investors rather than short term investors in the recessionary period. The Uniliver senior vice president of sustainability Gavin Neath says "Sustainability strategy is a central part of Unilever's business strategy." He claims that consumers are becoming more aware of ethical and environmental issues, so managing the business sustainably provides a competitive advantage. The crucial argument for sustainability, however, is financial. "Managing a business sustainably also saves you a ton of money on energy and packaging," Neath says. "Given that in the future we will be paying ad lot more for our energy, our packaging, we'll be paying for carbon, water, and pollution we make, we might as well get that sorted out today" (Otterry,2010).

**2.3 Corporate citizenship**

The term corporate citizenship emerged as a new way of addressing the social role of corporations in the mid-1990s (Crane & Matten, 2004). Corporate citizenship basically broader CSR which connect business activity to broader social accountability and service for mutual benefits reinforcing the view that a corporation is an entity with status similar to person (Valor, 2005).More specifiable corporate citizenship is a firm's sense of responsibility towards community and ecological and social environment in which it operates, and draws resources and sustenance from. Firms express citizenship through their waste and pollution reduction process, by contributing educational and social programs and by earning adequate returns on the employed resources. Car manufacturer ford demonstrated corporate citizenship in their website as who we are as a company, how we conduct our business and how we care our employees, as well as in how we interact with the world at large. GlaxoSmithKline do corporate citizenship programmes with the aims of enabling people to enjoy better, healthier, more fulfilling life styles.

**2.4 Disclosure**

According to Solomon and Lewis (2002) the environmental disclosure in the corporations' annual report had become top political issues in the late of last millennium all over the world. In the UK British then prime minister (2000) said that I am going to issue new challenges for all FTSE350 companies to publish environmental report. It becomes really challenges for FTSE 350 companies as only 50% companies used toFTSE350 companies produced social report (Doane, 2002).More recently consultancy firm ERM reported that only 79 companies from FTSE 100 are publishing social reports while 16 companies are producing quantitative performance data to back up their policy assertion. Researchers argue that the incentives behind the social and environmental disclosure unclear. Doane(2002) demonstrated that corporate social and environmental disclosure arises from the premise that by managing and being transparent about social and environmental impacts a company will better manage risk ultimately performed better financially than those who fail to report. Mathews (1993) states that social and environmental disclosure can be rapidly incorporate into the share price. It has emerged as a popularity of the general public. In the UK 77% of British public like their pension funds to be invested in the socially responsible way (Targett, 2000 cited by Solomon and Lewis, 2002).Moreover 80% of pension scheme to operate an SRI( Socially responsible investment) policy (The Ethical investors,1999 cited by Solomon and Lewis,2002).Social and environmental disclosure could bring financial gain for the corporation as corporation will give emphasis on information rather than limiting gloss. If all competitors produce these reports then it will be possible a fair competition among companies. In practice corporations do the social and environmental disclosure in their annual report, internal, sustainability report and conference in the stakeholder participation (Doane, 2002).

**3. Accountability and Theoretical Debate**

According to Crane &Matten(2004) corporate accountability refers to whether a corporation is answerable in some way for consequences of actions. Herbohn and Herbohn(1999) have demonstrated the modern concept accountability as holistic concept that represents something beyond responsibility. Dellaportas et al.,(2005) have expanded the corporate accountability pointing out that an organization should be accountable for the often unintended and unacknowledged moral, social and environmental consequences of the pursuit of economic objectives. Stakeholder theories, organizational legitimacy, political economy of accounting have developed from the broader view of corporate accountability (Dellaportas et al., 2005).The theories are discussed as under.

**3.1Stakeholder theory**

A theory is a systematic attempt to understand what is observable in the world. According to Dellaportas et al., (2005) the success of organisation depends on its ability to balance the conflicting demands of its various stakeholders. Most popular definition of stakeholder theory has been given by Freeman (1984) as "any group or individual who can affect or is affected by the achievement of the organizations objectives. It is a descriptive theory and attempts to gain stakeholder support and thus minimise affect the cost of dealing with complaints and actions that might otherwise affect them (Dellaportas et al, 2005).According to stakeholder theory of CSR, stakeholders can be affected by the operation and decision of the corporation. Therefore stakeholder should be considered while taking corporate decision as they can negatively react on the corporation which lead to corporation out of business (Stanford Research Institute Internal report ,1963) .But if an organisation consider stakeholders then corporate decision can be influenced by stakeholders (Frooman,1999). Stakeholder engagement in corporate decision the organisation should face the following problem:

- Stakeholder's demands can be varied by the nature of the stakeholders. It is quite impossible to meet all stakeholders demand.
- There could be a goal conflict between stakeholders and corporations. Stakeholders would think the issues in favour of their own interest which leads to a conflict the corporation's goal setting.

-Stakeholder engagement should be time consuming and therefore it will take long time to take decision. Particularly it will not be suitable when the decision is urgent.

-To engage stakeholders in the corporate decision would be costly.

-Irresponsibly toward stakeholder may result boycott or other consumer actions.

However if the organisation includes the stakeholders in their corporate culture and decision the corporation may face the following benefits:

-Inclusion of stakeholder might be rewarded with extra stratified customers. The perceived socially responsible company can create loyal customers.

-Stakeholder engagement may lead to sustainability of the organisation's in the future.

-Low or less labour turnover as employee-friendly company last longer.

-Saving cost regarding training and development of the employee as employee turnover is less. Therefore it is vital for a corporation to engage stakeholder in order to obtain sustainability.

**3.2Legitimacy theory and CSR disclosure**

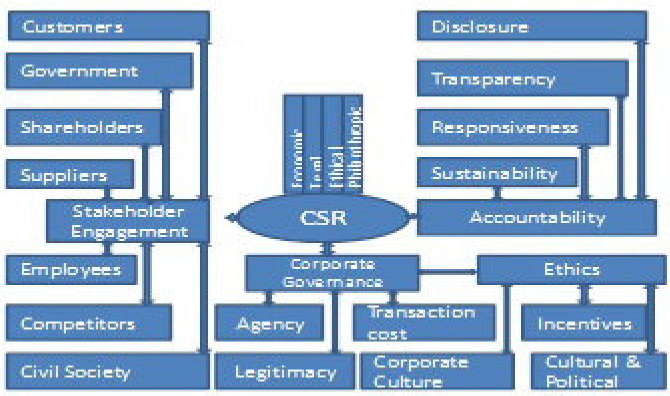
Legitimacy theory suggests that an organisation will operate by considering society expectations. The company not produce any product or services which are harmful for stakeholders of the society (Dellaportas et al.,2005).According to Suchman(1995) "Legitimacy is a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions". According to legitimacy theory it is expected that organisations operates by considering society expectation and within the norms of respected societies. Tilling(2004) demonstrated that legitimacy is vital for an organisation stating legitimacy just like money which is require to operate a business and lower legitimacy can have dire consequences for an organization which could ultimately lead to the forfeiture of their right to operate. If a company do not follow the society expectations then it can be penalised in many ways which may lead to the dissolution of the company (Deegan, 2002).Deegan(2002) states that due to breach the social expectation the customer can boycott the corporation's product, supplier can refuse to supply raw materials ,employees can show reluctance to work for the company and government can impose additional tax. However, academics argued that the legitimacy is a subjective matter and society expectations change overtime (Tilling, 2004). In that case how the company will show it is legitimate to its stakeholders? To answer this question it has come out that it is necessary to disclose this information on a voluntary basis that the company also updating themselves to cope with the changing business environment (Deegan, 2000).

### 3.3Agency theory and corporate governance

In a corporation, ordinary shareholders are the principal (owner) and managers are the agent who works for the shareholders interest. Bonanzzi and Islam (2007) argued that managers may not always work for the best interest for the shareholders when the control of the company is separated from its ownership. Herbert (1959) demonstrated that managers are satisfiers not maximizer. According to Herbert (1959) managers prefers to intact their own existence rather than maximising the value of the firm to its shareholders. But, interestingly managers will provide optimal decision for the shareholders only if appropriate incentives like bonuses, stock options, are given and they are monitored (Jensen and Mecling, 1976).Hence monitoring concepts of bonding the agents, systematic review of management prerequisites, financial audits and placing specific limits of management decision. Therefore, it is necessary to have better corporate governance to control and monitor managers. Garrat (1997) advocates that the board of directors' job should be the determining the company purpose and ethics, formulate strategies, establish planning, monitor and controlling CEO and Managers and issue report and recommendation to the shareholders. Better control is required for sustainability of the corporation.

## 4. Strategic CSR Model

CSR is functioning as corporate strategic business model with a view to corporations' economic, social and environmental objectives. CSR activities are not mandatory for the corporations'. This is why how a company formulate their CSR activities depends on the size and ethics of the company. It is very hard for a small company to afford CSR activities in a large manner as it might be expensive. However, I an endeavour to draw a CSR model for large pharmaceuticals companies. The model is described as under:




**Strategic CSR Model (Source: Author)**

## 5. Justification of Model

In this section I will go through the elements of the model and will endeavour to explain why these elements are important for large pharmaceutical companies. I will also provide some arguments why some issues is omitted from the model.

### 5.1Economic responsibility

Any organisation apart from not for profit organisation main objective is economic. The reason behind that shareholders' invest money for return, employees work for fair pay, supplier supply goods for timely payment, customers wants quality product at fair prices. Therefore every company should have economic responsibility (Carroll, 1991).Economic responsibility is widely respected in today's business. Many companies have employees discount coupon to facilitate cheap shopping for its employees. They also provide free uniform and housing and transport allowance to give better life for their employees. They are working hard and making money for the shareholders. For facilitating supplier they are giving free training to the suppliers' employees' and up to date supply chain management software. In the UK retail giant Tesco, Sainsbury, Marks and Spencer and many other companies performing economic responsibility to their stake holders(Tesco,2009;M&S2010:Asda,2009).

### 5.2Legal responsibility

Every company should follow the rules and regulation for fair business and competition. Carroll (1991) suggests that the satisfaction of the legal responsibility is required for all corporations to be socially responsible. Abiding by the law promote fair competition among the business and minimize social disorder. To give an example Royal Bank of Scotland has been fined £28.6 Million by the UK office of fair trading in order due to breaking the competition law and involved in unfair competition and with Barclays bank. The office of fair trading fined RBS in order to establish fair competition in the UK business with the view of legal responsibility (Arnold, 2010).

### 5.3Ethical Responsibility

Corporation should not produce and market unethical product and services as it brings worse effect on the society. Lantos(2002) argued that ethical responsibility should be mandatory for corporation telling corporations do social harm, like produce socially undesirable goods and create pollution. In practice large corporations are doing their ethical responsibilities. To give an example Toyota has recalled 135000 of sold cars due steering fault. These cars were running on the road and many of the users of the car may not notice the fault but due to ethical responsibility Toyota recalled these cars as the fault may cause accidents and cost lives. Toyota had recalled these vehicles which cost them huge money and hampered the reputation in the market (Reed, 2010).

### 5.4Philanthropic responsibility

In a limited nature philanthropic responsibility will be adopted for my strategic CSR model as corporate philanthropic strategy sometimes become harmful for the company. To continue philanthropic activity corporations needs to have sound profitability. When profitability and cash flow is poor then it is not easy to maintain philanthropic activities and as a consequence it can be harmful for the company's production process and the product may not be sustainable. To give an example, Novartis, the Swiss pharmaceuticals group defied the World Health Organization saying developing nations or donor nations should cover the cost in order to make production sustainable(Jack,2009)Although there are debates on philanthropic responsibly of a corporation, but most of the companies sometimes do philanthropic activity as part of their business strategy. To give an example, in 1998 UK firm GlaxoSmithKline launched a scheme to give free drugs to eliminating disease elephantiasis costing£1bn (Mihil, 1998 cited by Crane and Matten, 2004).Financial times recognise it as a philanthropic decision.

### 5.5 Stakeholder Engagement

According to stakeholder theory stakeholder are directly and indirectly related to the corporation. Stakeholders like, employees, government, local authorities, customers, suppliers, civil society have great dependency on organisations. Although there is some problem to engage stakeholders in decision making but in the long run it brings good and loyal customers, suppliers and employees. This loyalty helps the corporation for sustainable development. Therefore, it is very important to include stakeholder engagement in my model. A friendly relation between and stakeholders helps the organisation's sustainability. The very notion of corporate responsibility and responsible organisations are made on the notion that “The more an organisation engages with its stakeholders the more accountable and responsible towards its stakeholders” (BSR, 2006).

### 5.6Business ethics

Business ethics and corporate governance is the vital part of the CSR model. As part of the business Ethics Corporation will attract high calibre people providing good training free of cost. Provide scholarship to the highly talented student and a formal job offer when graduated. Corporation will set the fair price of the product and produce quality goods for the customers. Corporation should set up good chain of command and set up internal audit department which will minimise wastage and increase efficiency by doing proper control. Corporation will provide of equal opportunity, in home education for staff development and formulate complaint procedures. Corporation should look at the external ethical factors as well. In order for sustainability corporation should select ethical supplier where human rights is available, child labour is discouraged in manufacturing process and proper health and safety maintained at work (Welford, 2004).

### 5.7Accountability

It is very important for a company to be transparent. The strategic CSR model should be built considering sustainable development of the organisation. Hence corporation should be committed to the CSR disclosure in the annual report or website. Formulate special policy and procedures for stakeholders. The corporation also can be committed with social and community development by educating people and being a corporate citizen (Welford, 2004).

## 6. Challenges of Environment and Social Reporting

According to the DEFRA (Department for Environment Food and Rural affairs) good environmental performance makes good business sense. Environmental aspects, like environmental risk and uncertainties impact to some extent on all companies and affect investment decisions, consumer behaviour and government policies(Defra,2006)(www.defra.gov.uk)

But environmental reporting is a challenge as the guidelines are mostly voluntary and lack of understanding.The issue environmental cost is critically analysed bellow below:

### 6.1 Definition of environmental costs

According to Canadian Institute of Chartered Accountants, the definition of environmental costs includes the costs of environmental measures and environmental losses. Environmental losses are costs incurred by an entity in relation to the environment for which there is no return or benefits (ICAEW, 1996): For example,

-Assets whose costs are irrecoverable due to environment concerns;

-Damages paid to other for environmental damages Or,

-Fines or penalties for non-compliance with environmental regulations. On the other hand environmental measures are steps taken by an entity or, on its behalf, by others to prevent, reduce or repair damage to the environment or to deal with the conservation process.

### 6.2 Critical analysis of environmental costs

Environmental costs are not like other cost. Under no circumstances this cost will be related to cost of the product and process safety. Although safety cost is a cost that is related with risk and dispensed in order for creating safety environment but according to the guideline of Institute of Chartered Accountant of England and Wales (ICEAW, 1996) it will not be qualified as environmental cost. Sometimes organization mix the safety cost and health and management system cost. Logically it should be divided into the separate headings but actually it is not segregated. Therefore it is very difficult to distinguish environmental costs.

-Environment measures are not clear. ICAEW explains to arrive at the environmental measures those cost should be included which is wholly an exclusively attributable to environment measures. The wholly and exclusively measure is a technical term and therefore it is not understandable by everybody.

-Expenditure can be on the basis of dual purpose. When any expenditure took place in relation to the management of environmental affairs then it becomes difficult to differentiate the environment cost as environmental management is the part of general management. On top of that when a old plant is replaced by a new plant then it will have positive impact on the environment as it will emit less $CO_2$.In this case if the criteria "wholly and exclusively" used for preventing ,repairing, damage then the cost will not qualify as environmental cost which is not a right treatment.

-When any maintenance is taken place then obviously it can have positive impact on the environment as it will better perform than previous. But this cost will not qualify as environmental cost.

-Environmental costs arise in a number of ways. For example, there may be an obligation to operate a production site to a prescribed standard, contaminated land may need to be rectified, or emissions form an industrial plant may have to be reduced. From an accounting perspective, there is generally no reason to treat environmental costs in a different way from other costs.

-Environmental impacts are often inseparable from other impacts as they are managed together and the cost associated to an environmental benefit may be impossible to identify. For instance, using different materials so as to minimise waste may also reduce disposal costs; investment in increased energy efficiency also reduces energy costs (Salomone and Galluccio, 2001)

**6.3Social Audit**

According to guardian social audit (http://www.guardian.co.uk/values/socialaudit)Social audit is a process by which an organisation can assess and demonstrate their social and environmental benefits and limitations. This is a social performance indicator though which an organisation judges the corporate behaviours with a view to society expectations. The main objectives of doing it so as to keep the organisation sustainable business practice. Corporation do it by understanding the impact of the business on the society. The .social audit formulated by the organisations and verified by the external professional mostly auditors. This is a challenge for the organisation and how this process worked we will look at shortly. In order to implement the social audit the organisation has to do all their activities complying with the legislation provided by the parliament, regulations and standard available in the host and operating country from where the corporation collect and distribute product or services. In order to follow these social activities the corporations has to follow the rules very strictly and the partner organisation also has to follow the similar principles. For working towards these social betterment objectives corporations has to cut carbon emissions and encourage staff to reduce carbon. Moreover corporation has to care about any kinds of wastage like water management, energy management. This is a continuous process so corporations have to follow it for all the times and verify with the set target and try to improve further by reviewing and monitoring. In UK a lot of companies are doing this social audit. Telegraph and Argus is one of the pioneers of social audit.

**6.3.1Critically evaluation of Social Audit**

1. the most important aspect of social audit is that it is not mandatory. For this reason it entirely depends on the corporation. If they want to do it they can.

2. It is an expensive work need extra person to follow the whole process but it will be depend on the corporation's affordability.

3. Business partners like supplier, creditor may not follow the same rules. And if any party pressure other then the business relations may be destroyed.

4. Carbon emissions, oil spill in the Gulf of Mexico cannot be measured properly as there are no proper indicators which can give the actual result.

### 6.4 Environmental cost and social reporting in Bangladesh

Our content analysis of 70 Bangladeshi companies found that manufacturing companies like pharmaceuticals and textile are paying increasing attention toward environment and doing some social welfare work in order to compensate environmental damage they are making.

Table showing the environment and social reporting:

| Companies | Sample | Total | Environmental Reporting | | | Social Reporting | | |
|---|---|---|---|---|---|---|---|---|
| | | | Yes | No | Where | Yes | No | Where |
| Banks | 20 | 30 | None | None | None | None | None | None |
| Pharmaceuticals | 14 | 20 | 12 | 2 | *NFS | None | None | None |
| Textile | 15 | 26 | 7 | 8 | *NFS | None | none | None |
| Telecommunication | 1 | 2 | 1 | 1 | *NFS | None | None | None |
| Insurance | 20 | 45 | None | None | None | None | None | None |
| Total | 70 | 123 | | | | | | |

*NFS-Notes to the financial statements

**Source: Author (Content of Annual Reports)**

Service sector like bank and insurance companies are not doing environment and social reporting in their annual reports. Manufacturing and textile companies are doing a small extent of environmental reporting. Out of 14 Pharmaceutical companies 12 is reporting environmental cost in the notes to the financial statements but they are not doing social reporting. Among the 15 textile companies only 7 is reporting environmental cost in the notes to the financial statements but not doing social reporting. Telecommunication companies are showing environmental costs in the notes to the financial statements but not doing social reporting.

## 7. Conclusion

Finally, corporations work in the environment and it uses human and natural resources and discharge industrial wastage which pollutes air, water and sound. Since they do this pollution, they cannot avoid social and environmental responsibility. Therefore CSR should be used as strategic model in order for the betterment of the organisation and environment.

## References

Arnold,M(2010) “RBS fined £28.6m for illegally sharing loan-pricing data” Financial times. Available online at http://www.ft.com/cms/s/0/3f0c0756-3c5d-11df-b316-00144feabdc0

Ackermann, R. and Bauer, R. (1976), Corporate Social Performance: The Modern Dilemma, Reston Publishing, Reston: VA.

Banerjee, B. (2002), "Corporate environmentalism: the construct and its measurement," Journal of Business Research, vol. 55, no. 3, pp. 177-191.

Bowen, H. (1953), Social Responsibilities of the Businessman, Harper & Row, New York: NY.

Birch, D. (2001), "Corporate citizenship - rethinking business beyond corporate social

Responsibility", in Andriof, J., and McIntosh, M. (2001) (eds.), Perspectives on Corporate Citizenship, Greenleaf, and Sheffield: UK, pp. 53-65.

BSR: 2006, 'Stakeholder Engagement', (Business for Social Responsibility, San Francisco) www.bsr.org,date accessed November 26:2006.

Bonazzi,L and Islam,S.M.N(2007) " Agency theory and corporate governance "A study of the effectiveness of board in their monitoring CEO, Journal of Modelling in Management,Vol.2,No.1,pp7-23.

Carroll, A., (1979), "A three dimensional model of corporate social performance,"Academy of Management Review, vol. 4, no. 4, pp. 497-505.

Carroll, A. (1999), "Corporate social responsibility: evolution of a definitional construct, "Business and Society, vol. 38, no. 3, pp. 268-295.

Carroll,A.B(1991) "The pyramid of corporate social responsibility: toward moral management of organizational stakeholders "Business Horizons,pp39-48

Carroll,A.B and Buchholtz(2000)Business and Society: Ethics and shareholder management 4th edition.

Caloric(2005) " Corporate Social Responsibility and Corporate Citizenship: Towards Corporate Accountability" Journal of Business and Society Review,pp.191-212. Available onlinehttp://www.flinders.edu.au/shadomx/apps/fms/fmsdownload.cfm?file_uuid=FDD752B5-9C5B-F7CB-99BF-0A47018FD0DB&siteName=sabs

Carson, R. (1962), Silent Spring, Houghton Mifflin Company, Boston: MA.

Davis, K. (1960), "Can business afford to ignore social responsibilities?" California Management Review, vol. 2, no. 2, pp. 70-76.

Davis,K(1973) "The case for and against business assumption of social responsibilities "Academy of Management Journal pp312-322

Dellaportas,S;Gibson,K,Alagiah,R;Hutchinson,M;Leung,P;and Homing D.V(2005)"Ethics Governance and Accountability "First Edition pp206-212.

Deegan, C. (2000), Financial Accounting Theory, McGraw Hill Book Company, Sydney.

Deegan, C., M. Rankin and J. Tobin (2002) "An Examination of the Corporate Social and Environmental Disclosures of BHP from 1983-1997: A Test of Legitimacy Theory", Accounting, Auditing and Accountability Journal, Vol. 15, No. 3, pp. 312 – 343.

Doane,D(2002) "Market failure, the case for mandatory social and environmental reporting "paper presented to ippr seminar, the Transparent Companies.

Defra(2006) " Available online at www.defra.gov.uk

Donaldson, T. and Preston, L. (1995), "The stakeholder theory of the corporation:

Concepts, evidence, and implications," Academy of Management Review, vol. 20, no. 1,

pp. 65-91

European Commission (2002), Corporate Social Responsibility: A Business Contribution to Sustainable Development, Office for Official Publications of the European Communities, Luxembourg

Frederick, W. (1960), "The growing concern over business responsibility," CaliforniaManagement Review, vol. 2, no. 4, pp. 54-61.

Freeman, R. (1984), Strategic Management: A Stakeholder Approach, Pitman Publishing,

Boston: MA.

Frooman,Jeff(1999) "Stakeholder engagement strategies "Journal of Academy of Management Review,Vol.24,N.2,PP191-205.

http://rc4ht3qs8p.search.serialssolutions.com/?ctx_ver=Z39.882004&ctx_enc=info%3Aofi%2Fenc%3AUTF

Friedman,M(1970) "The social responsibility of business is to increase its profit" New times Magazine"13 September.

Greening,D.W.,Turban D.B(2000) "Corporate social performance as a competitive advantage in attracting a quality workforce "Business and Society pp254-80.

Garrat, B. (1997), the Fish Rots from the Head, Harper Collins, London.

Guardian Social Audit available online at http://www.guardian.co.uk/values/socialaudit

Hawken, P., Lovins, A. and Lovins, L. (1999), Natural Capitalism: Creating the Next Industrial Revolution, Little Brown and Company, New York: NY.

Herbohn,KF and Herbohn, JL(1999) "Accounting for forest in Social, Economic and political context "Journal of Accounting forum,vol.23,no.4,p.408

ICAWE (1996) "Environmental Issues in Financial Reporting" Available online at http://www.icaew.com/index.cfm/route/120268/icaew_ga/pdf

Jensen, M.C. and Meckling, W.H. (1976), "Theory of the firm: managerial behaviour, agency costs and ownership structure", Journal of Financial Economics, Vol. 4, pp. 305-60.

Johnson, H. (1971), Business in Contemporary Society: Framework and Issues,Wadsworth, Belmont: CA.

Jones, T. (1995), "Instrumental stakeholder theory: a synthesis of ethics and economics, "Academy of Management Review, vol. 20, no. 2, and pp. 404-437.

Jack,A.(2009) "Novartis says 'no' to free flu vaccines"Pubished by Financial Times. Available online at.http://www.ft.com/cms/s/0/5f358b4e-5944-11de-80b3-00144feabdc0.html#ixzz16fMugfdH

http://www.ford.co.uk/AboutFord/top-100-ethical-companies

http://www.gsk.com/investors/reps01/annualreview2001.pdftionary.Com/definition/corporate-citizenship.html#ixzz16sXi6iU5

Mihil,C(1998) "Drug firm donates £1bn to defeat tropical disease "Guardian

Marsden, C. and Andriof, J. (1998), "Toward an understanding of corporate citizenship and how to influence it," Citizenship Studies, vol. 2, no. 2, pp. 329-352.

Marks and Spencer Corporate annual Report, 2010.Availble online at http://annualreport.marksandspencer.com/

McGuire, J. (1963), Business and Society, McGraw-Hill, New York: NY.

Marrewijk,M.V(2003) "Concepts and definition of CSR and Corporate Sustainability: Between Agency and Communion" Journal of business ethics pp95-105.

Mintzberg,H(1983)the case for corporate social responsibility "Journal of Business Strategy,pp3-15.

Ottery,C(2010) "Investors should be looking beyond the short term "The Guardian. Available on at http://www.guardian.co.uk/sustainable-business/blog/investors-short-termunilever-tescoline

Reed,J(2010) "Toyota recalls 135,000 cars over steering fault". Article published on Financial Times. Available online athttp://www.ft.com/cms/s/0/284e7598-e802-11df-b158-00144feab49a.html#ixzz16fI23kJN

Solomon,A and Lewis,L(2002) "incentives and disincentives for corporate environment disclosure" Journal business strategy and environment, Vol.11, pp154-159.

Silberhorn,D.and Warren,R.C(2007) "Defining corporate social responsibility" A view from big companies in Germany and the UK, Journal European Business Review, Vol. 19 No. 5,pp352-372

Sainsbury Corporate Responsibility Report(2009).Available online at http://www.j-sainsbury.co.uk/ar09/businessreview/corporateresponsibility.shtml

Tesco Plc. Corporate Responsibility Report 2009,Available online at http://www.investis.com/plc/cr09/crr09.pdf

Salomone,R and Galluccio,G(2001) "Environment Issues and Financial Reporting Trends "Social Science Research Network"

Suchman, M. C. (1995) "Managing Legitimacy: Strategic and Institutional Approaches", Academy of Management Journal, Vol. 20, No. 3, pp. 571 - 610.

http://www.flinders.edu.au/shadomx/apps/fms/fmsdownload.cfm?file_uuid=FDD752B5-9C5B-F7CB-99BF-0A47018FD0DB&siteName=sabs

Tilling, M. (2004), "Communication at the Edge: Voluntary Social and Environmental Reporting in the Annual Report of Legitimacy Threatened Corporation". APIRA Conference Proceedings, Singapore, July.

Wood, D. (1991), "Corporate social performance revisited," Academy of Management Review, vol. 16, no. 4, pp. 691-719.

Worrell, R. and Appleby, M. (2000), "Stewardship of natural resources: definition, ethical

And practical aspects," Journal of Agricultural and Environmental Ethics, vol. 12, no. 3,pp. 263-277