Modern Tendencies in CSR Audit

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Abstract: *The concept of corporate social responsibility is a renewable concept, as it keeps pace with the economic, social and environmental requirements to maintain the sustainability of profits, human values and ecological life. Starting with philanthropic initiatives, passing through the expansion of academic theories and models, and linked with international conferences, the concept of CSR has evolved to become equivalent to the sustainability concept. CSR report and audit and their correlation with UNGC principles are considered as most recent trends investigated by scholars in the ethical field. For that, the article demonstrated the feasibility of CSR and audit in enhancing competitiveness, raising profitability, reducing production costs, shareholder satisfaction and stakeholder loyalty.*

Keywords: *CSR, sustainable development, company's competitiveness, competitive advantage, UNGC*

JEL codes: M42, I15

1 Introduction

Corporate Social Responsibility (CSR) is a concept established on voluntary decisions adopted by companies towards social, economic and environmental responsibilities to ensure flourishment and prosperity on various dimensions (Brin & Nehme, 2021). In its quite a short history the concept of CSR has gone a path from just individual philanthropic initiatives to a source of sustainable competitive advantage (Graph 1).

Graph 1 The main milestones of CSR concept
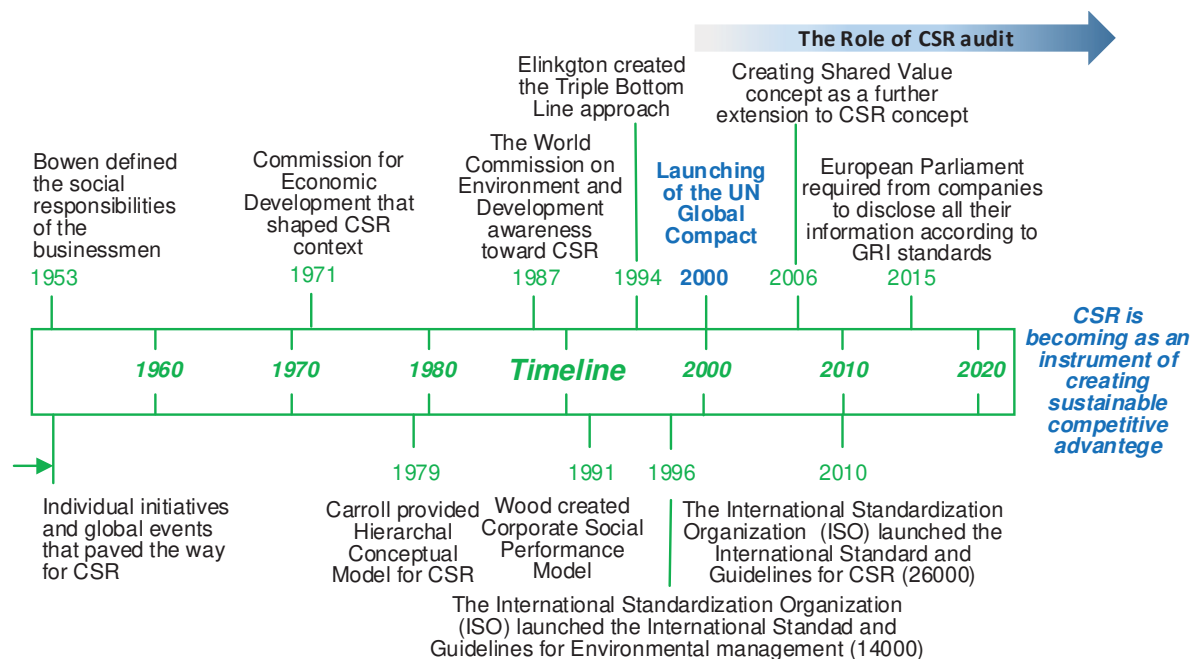
Source: authors' elaboration

Nowadays, for a business, CSR goes further than aiming to be compliant within national or international regulations, managing risks, or corporate philanthropy – it has to be an integral part of every aspect of operations, helping to create a sustainable strategy (Black,

2015). As for that, CSR guides businesses to reveal commitment toward building better societies, protecting environmental resources and upgrading ethical and political standards. Depth discussions for CSR theories have been illustrated by several management scholars. One of the most popular theories is the Hierarchal Pyramid model created by Archie Carroll's. Carroll encompassed economic, legal, ethical and philanthropic responsibilities as four factors that drive CSR to meet society expectations, academic acceptance and growth trajectory (Carroll, 1979). In 1991, Donna Wood extended exploration in CSR theories. Wood reformulated the Corporate Social Performance (CSP) model as a coherent and integrative framework for business and society. She framed the social responsibilities at institutional, organizational and individual levels (Wood, 1991). Width discussion for CSR theories was illustrated through the Triple Bottom Line model created by John Elkington. Elkington stressed that social, environmental and economic concerns must be balanced at business level in order to incorporate society standards in their own governance perspectives (Elkington, 1994). Accordingly, the Stakeholder theory founded by Freeman states that identifiable group of stakeholders could affect the achievement of organization objectives. It derived in descriptive, instrumental and normative theory (Freeman, 1999). Despite the divergent models and theories of CSR, the argue should be shifted to focus on setting CSR audit and disclosure. Since the concept of CSR became not only academic question, but a one of the basic stones of sustainable strategy and big number of companies were involved into the process, the information about the activity must be somehow structured and standardized. For this purpose were created a lot of institutions and standards, the most crucial among them were UNGC, ISO 14000 and ISO 26000. The point in time when society understood that the activity connected with CSR (and the information connected with the activity) must be checked can be seen as creating of the concept of CSR audit.

2 Methodology and Data

The setting up of CSR audit is highly connected with creating UNGC because it generates the information flows regarding CSR about more and more organization (Graph2) which must be checked. Sustainability reporting determines the development of the methodology of classification of stakeholders' information requests in different sectors, as well as development of effective algorithms for selecting the most relevant requests (Sukhonos et al., 2018).

Graph 2 The number of companies in UNGC
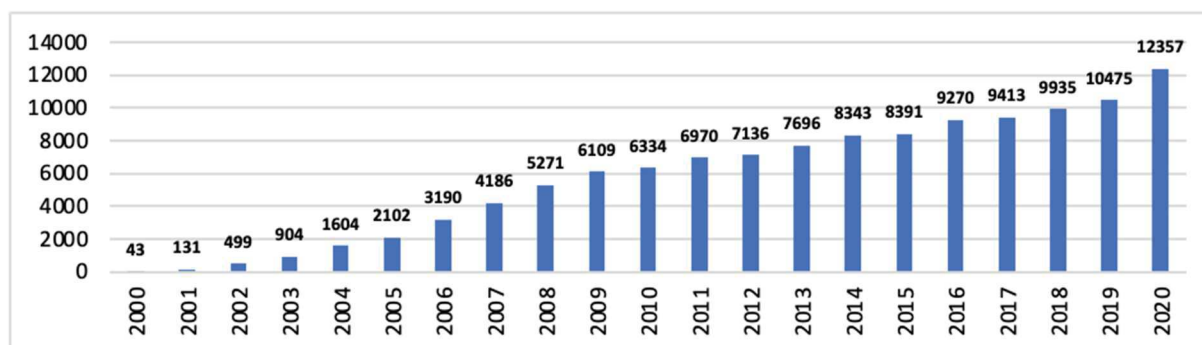
Source: United Nation Global Compact (2019); United Nation Global Compact (2020)

CSR reports which named as sustainable reports are periodic annual reports issued by companies that are listed in the UNGC as active members. Those companies have adopted the principles of the UNGC and hold an ethical responsibility to disclose and publish all non-financial activities that have achieved through implementing its CSR programs. CSR reports are voluntary comprehensive reports involving not only economic data, but also information from environmental and social field. These reports talk about the company policy in relationship to the environment, sustainability, or there are directly focused on fulfilling the commitments accepted by the company within the concept of social responsibility. CSR report can help to bring a systematic approach into the management

of socially responsible activities, identify future risks and opportunities and thereby contribute to increasing the competitiveness of business and maintain the possibility for long-term business venture (Moravcikova, Stefanikova, Rypakova, 2015). However, CSR audit is a service offered by third part, which conduct supplier audits on social responsibilities for several companies worldwide (CSR Company International, 2014). CSR auditing system is based on the analysis of current CSR literature and interviews conducted with a number of interested and knowledgeable stakeholders. It attempts to create a framework for social responsibility auditing compatible with an existing commercially successful environmental audit system (Morimoto, Ash, Hope, 2005). It is important to note that CSR audit policy is usually conducted with International Certifiable Management Standards (ICMS) as Global Reporting Initiative GRI, UNDG, Social Accountability SA8000, International Organization for Standardization ISO26000, and many others. At least yet, CSR report process is still considered as a non-mandatory process for companies which adopted a CSR approach, except for the large public companies which are operating in the European Union which have to obey the directive 2014/95 issued by the European Parliament (European Parliament, 2014). There are several options and styles for CSR report, yet, all of it should include a brief introduction for the vision and drivers behind the sustainability prepared by the CEO, followed by presentation for the organization structure, followed with sustainability context that includes SWOT analysis in order to inspire an impact assessment that identifies the business indicators and risks. Identification for current stakeholders and their priorities is a must, followed with detailed explanation for the progress and performance achieved over time via metrics and key indicators. The aim behind CSR report is to reveal in a transparent way the ethical responsibility of the company. Moreover, it aims to motivate employees, current and future investors for collaborating in projected strategic sustainable projects and programs. It is recommended to send the CSR report twice a year to the local office of the UNGC in order to list the company as an active member (UNGC, 2021). Artem Koldovskyi summed up crucial points to be considered in developing a CSR auditing system as inclusion of all significant stakeholders group in the auditing process; diversity in individual perception of CSR, conducting quantitive and qualitative measurements for CSR activities, and problem of negative screening. On the other hand, he addressed elements for CSR succesful achievements as good stakeholder management ; good corporate leadership; integration of CSR into corporate policy ; active involvement and coordination between government, businesses, NGOs and civil societies (Koldovski, 2015).

3 Results and Discussion

All in all, CSR report and audit processes provides a meaningful tool to collect and track various data regarding the CSR model adopted and implemented by the company. Such data is considered as opportunity to optimize operational processes, to motivate employees and engage them with the company values, to reduce energy consumption, to gain stakeholders or customer loyalty, and to innovate solutions on various aspects. Companies who want to join the UNGC must write a letter of intent signed by the CEO to the UN General Secretary indicating their willingness to commit to the ten principles. After a company become a signatory member, it must report its progresses toward the ten principles once a year by publishing a Communication on Progress (COP) report. Nowadays, the COP report doesn't have any united form for recording the achievements of the ten principles. If the company joint the UNGC but didn't apply the COP report in the first year it will be listed as non-communicative, and if it didn't apply its COP in the next year it will be delisted from the UNGC.

Several gaps have been detected during identifying the role of UNGC and analyzing some empirical data for participants companies involved in the UNGC: (1) The UNGC have not issued any unique form and standards for the COP report, it depends on self- reporting by participant companies; (2) there are large number of uncommitted companies, 56 % of the companies considered as unactive companies. Moreover, 23 % of the companies failed to meet all the 10 principles of the UNGC (Zemanova, Drulakova, 2020); (3) UNGC cannot monitor companies' behavior since it is not considered as an official international regulator

organization for managing CSR approaches; (4) lack of considering the principles as code of conduct or management system since it is not classified as complimentary or international standards.

As it was mentioned above CSR became a powerful instrument of increasing competitiveness of a company (Brin at al., 2020), thereafter the role of CRS audit was also changed. At early stages of CSR according to the multi-stakeholder approach reporting about CSR initiatives is considered as one of the effective instruments of communication with stakeholders (Sukhonos et al., 2019). But nowadays business understands that in the long-term perspective stakeholder trust and profit increasement is impossible without CSR (Myroshnychenko et al., 2019). According to Thompson "…building a stronger long-term competitive position benefits shareholders more lastingly than improving short-term profitability" (Thompson et al., 2013). But for managers of a company, sometimes it is more beneficial to have short term profit than a long term sustainable competitive advantage, thereafter shareholders with the help of CSR audit have to check if management of the company uses CSR concept (Graph 3).

Graph 3 The modern place of CSR audit
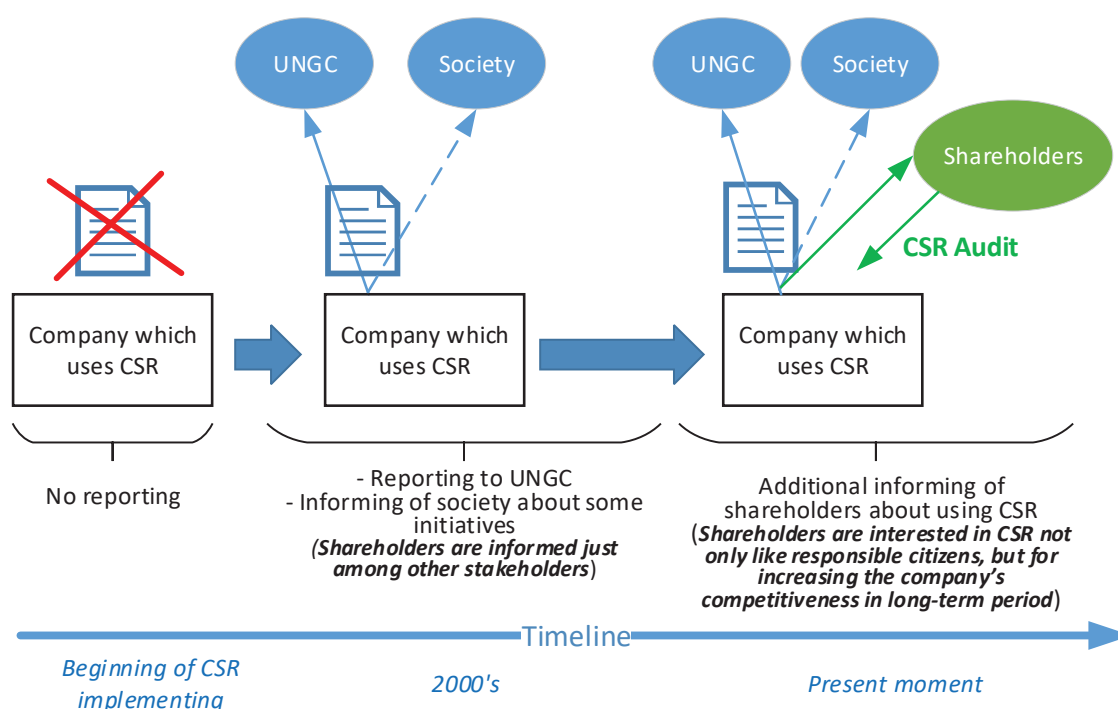
Source: authors' elaboration

For such purposes, the form of report about CSR activities for shareholders compared with a report to UNGC should be increased and must include vision statement, SWOT analysis, detailed explanation about current progress according to metrics and key indicators. According to mentioned the tasks of CSR audit is to align the CSR report with ICMS principles and standards as GRI and ISO, so that the company will be able to compete in the global market and maintain its sustainable objectives.

Conclusions

The concept of CSR has gone a long way from philanthropic voluntary activity to a powerful tool of creating sustainable competitive advantage. Academic contribution toward CSR theories and models has been linked with the practical development of tools and instrument as CSR report and audit systems. Such evolution is paving the way develop continuous sustainable strategies to meet with next generation expectations.

Nowadays owners of businesses are interested in implementing of CSR concept not only as responsible citizens and among other stakeholders, but they have to check the company's management regarding including principles of CSR into the strategy, as far as

in some cases managers are more concentrated not at long-term competitiveness, but at short-term financial results. Thereafter, the role of CSR audit nowadays is becoming more important not only for connected organization (e.g. UNGC) and society at all, but now it must be an inbuilt part of auditing process of any company for satisfying owners' expectations about long-term stability of their investments.

Acknowledgments

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