

# Main Motivators of Social Audit: Case of Estonia

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In recent years the growing importance of sustainable development has been widely recognized worldwide. Organizations actively implement social and environmentally sustainable work practices in their business strategy. The growing concern from the stakeholders for the transparency and social responsibility has put more focus on social audit as an important tool of measurement of social and environmental performance of organizations. Various studies revealed importance and numerous benefits of social audit in different countries (Berthin, 2011; Ahmed 2012; Brown-Liburd & Zamora, 2014; Casey & Grenier, 2014). However less is known about the social audit in Estonia and this study fills a gap in determining its current stage and perspectives of future development.

The aim of this paper is to identify the reasons why Estonian are not very active in conducting social audit and what would be the main motivators for this procedure. Authors conducted a survey among the largest tax paying companies in Estonia. The questionnaire was sent to 800 companies and 122 responses were collected. Results of the study revealed an interest towards social audit among the surveyed companies however only 15 of them (12%) conduct social audit. In authors opinion the reason of the low number of performing companies is the certain difficulties experienced by companies while obtaining social audit related information.

The main reasons of conducting social audit outlined by respondents were their desire to demonstrate their responsibility towards society (67%) and the opportunity to evaluate the impact of the business activity of the company on different groups of stakeholders (60%); while the main reasons on non-conducting appeared to be lack of information about such opportunity (42%), lack of interest (20%) and lack of popularity in Estonia (28%). The main motivators which would push companies to perform social audit were identified as financial performance-related benefits (41%) and the growing public pressure (44%). The findings of the survey have various implications. First, they emphasize that there is an interest towards social audit among Estonian companies, which will continue growing in the coming years as stated by respondents. Second, that more attention and support should be provided from the state and the audit companies to ensure the sustainable development of the Estonian business community.

**KEYWORDS:** CSR, sustainable development, social audit, measurement, social and environmental practices.

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## Abstract



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## Introduction

In recent years the growing importance of sustainable development has been widely recognized worldwide. Organizations actively implement social and environmentally sustainable work practices in their business strategy. The growing interest of the society towards social and environmental activities of companies in general and their impact on different groups of stakeholders in particular has created the world of Corporate Social Responsibility accounting and reporting. According to Nikolaeva & Bicho (2011) this growth is partially contributed to the CSR media visibility of the company and its CSR publicity policy. More and more attention is paid nowadays to the reputation of company and its non-financial performance which in turn results in sustainable performance and creates a beneficial business environment. The growing concern from the stakeholders for the transparency and social responsibility has put more focus on social audit as an important tool of measurement of social and environmental performance of organizations. And while CSR reporting is highly implemented by most companies, widely used its benefits are non-deniable, the verification of such reports and CSR related activities – social audit is still gaining its popularity and public recognition.

A corporate social audit can be defined as assessment of company's performance on corporate social responsibility objectives. It also evaluates measurable goals intended to help business meet the expectations of various stakeholder groups regarding social and environmental responsibilities (What is a Corporate Audit..., 2018). Various studies revealed importance and numerous benefits of social audit in different countries (Berthin, 2011; Ahmed 2012; Casey & Grenier, 2014). However social audit is still not very popular in Estonia (Navross et al., 2016) and less is known about its current situation and perspectives of future development in this country and this study fills a gap in determining its current stage and perspectives of future development.

Therefore, authors considered it worth attention to investigate the main reasons of this phenomenon. Authors believe that main reasons of non-performance of social audit is the complexity, lack of interest from the companies' side and lack of relevant information about the procedure in general. Authors also suggest that such factors as lack of qualified specialists, unclear benefits of performance of social audit also have an impact on the low popularity of social audit among Estonian companies.

The main purpose of this study is to identify the reasons why Estonian are not very active in conducting social audit and what would be the main motivators for this procedure. To achieve the goal author have set up research tasks to provide and overview of the current situation on social audit and to reveal the opinion of Estonian companies. Therefore, authors have chosen a quantitative research method – survey, which was conducted among the largest tax paying companies in Estonia. The questionnaire was sent to 800 companies and 122 responses were collected. Results of the study revealed an interest towards social audit among the surveyed companies however only 15 of them (12%) conduct social audit. The main reasons of conducting social audit outlined by respondents were their desire to demonstrate their responsibility towards society and the opportunity to evaluate the impact of the business activity of the company on different groups of stakeholders; while the main reasons on non-conducting appeared to be lack of information about such opportunity, lack of interest, and lack of popularity in Estonia. The main motivators which would push companies to perform social audit were identified as financial performance-related benefits and the growing public pressure.

The remainder of the paper is organized as follows: after the linkage of the research topic to current literature, authors provide a practical insight into the performance of social audit by Estonian companies identifying the main reasons and associated benefits. Furthermore, authors present the results of the survey conducted among the largest Estonian taxpaying companies, which are taken as a basis for concluding remarks.

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## Literature review

The growing popularity of CSR has gained international recognition and resulted in a various socially responsible initiatives which has led the substantial contribution to the nation in general (The Fundamentals...,2015). Companies have started voluntary adopt CSR reporting practices; making the level of such disclosures may have a significant impact of the perception of stakeholders and the reputation of the company (Odriozola & Baraibar-Diez, 2017). The findings of Dhaliwal et al. (2012) suggest that the „issuance of standalone CSR reports is associated with lower analyst forecast error“ and contributes to the increasing level of trust of stakeholders. Thus, verification of such reports has become extremely important inspiring an increasing number of companies to assess their performance on a systematic basis (Henriques, 2002) and determine the current way of actions (Wirsig, 1978). According to According to the KPMG survey (2017) during the last 12 years assurance among the G250 companies has more than doubled, meaning that 67% of the reports are now verified, which is driven by both management and benefits gained by different groups of stakeholders (Owusu & Frimpong, 2012). The data of KPMG (2017) survey also suggests that assurance rates increase more rapidly in the countries with the high level of CSR reporting.

Previous studies identify the positive impact of the assurance of CSR reports on the quality of the disclosures (Moroney et al., 2012), investors decisions in general (Cheng et al., 2015) and their desire to invest into such companies (Shen, Wu & Chand, 2017). Numerous studies also suggest that companies willing to enhance the credibility and reputation would have performed the social audit procedure (Simnett et al., 2009), as the credibility of CSR reports is higher after the assurance (Pflugrath, Roebuck & Simnett, 2011) also contributing to the increasing the trust of stakeholders (Viehöver, Türk & Vaseghi, 2015). This is also confirmed by Bagnoli & Watts (2017), whose results indicate that companies more sensitive and caring about their social activities would seek for external high-level assurance.

It is also important to note that while no strict criteria in regard to the verification body exists, and assurance can be either external or internal, being performed by either professional accounting specialist or representative from other company or provided by the BIG 4, the studies indicate that the choice of assurance specialist really matters as the quality of assurance highly depends on the provider (Perego & Kolk, 2012). Studies of Hodge et al. (2009) reveal that users “would place more confidence in the reports provided by top tier accountancy firm than by a specialist consultant”, these findings are also confirmed by studies of Mock et al. (2007) and Perego (2009). Studies of Sierra, et al., 2013 also reveal that while the choice of assurance company largely depends on the size and profitability of the company this market is still dominated by the Big-4 companies. It should also be noted that while companies recognize the benefits of assurance the non-assured companies are often quite reluctant to implement this procedure referring to the high cost of the procedure (Park & Brorson, 2005), time consuming and the complexity of the process (Jones & Solomon, 2010).

All the above mentioned created a challenging path for the further research and inspired authors to investigate what is currently happening in Estonia, whether companies are ready to adopt the social audit concept or still costs outweigh the benefits.

The authors have conducted a survey among 800 largest taxpaying companies in Estonia reported by the Estonian Tax and Customs Board as of the year 2016 via Google Forms during 14.11 – 23.12.2016 (email addresses were found by authors via internet and the websites of the selected companies). The questionnaires were also distributed via accounting professional group on Facebook. To identify flaws and possible misunderstandings in the questionnaire the pilot survey was also arranged: the questionnaire was sent to persons involved in accounting and auditing activities, whose comments were incorporated into the final version of the questionnaire. Target companies were reached via email and 122 replies were collected in total. Table 1 illustrates the selected sample of the surveyed companies regarding their main business activity.

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## Research design

**Table 1**

Data of the surveyed organizations

Status	Sample
<b>Field of Activity</b>	
Manufacturing	27
Wholesale and retail trade; Repair of motor vehicles and motorcycles	21
Public administration and defence; Compulsory social security	14
Human health and social work activities	11
Transportation and storage	10
Construction	9
Information and communication	6
Other service activities	5
Administrative and support service activities	4
Financial and insurance services	4
Professional, scientific and technical activities	2
Arts, entertainment and recreation	2
Electricity, gas, steam and air condition supply	1
Education	1
Accommodation and food service activities	1
Real estate activities	1
Mining and quarrying	1
Agriculture, forestry and fishing	1
Water supply; sewerage, waste management and remediation activities	1
<b>Total</b>	<b>122</b>
<b>Employees in a company</b>	
≤ 50	56
51 to 250	20
>250	46
<b>Total</b>	<b>122</b>
<b>Years of operation</b>	
1-3	7
4-6	2
7-10	5
>10	108
<b>Total</b>	<b>122</b>
<b>Socially responsibility of companies (on their opinion)</b>	
Yes	115
No	7
<b>Total</b>	<b>122</b>
<b>Performance of social audit in the company</b>	
Yes	15
No	107
<b>Total</b>	<b>122</b>

Source: Authors'

The questionnaire was amended by the cover letter explaining that the survey would take approximately 10-15 minutes, all replies would be made anonymous and the results will be analysed and presented as a summary. The questionnaire consisted of either both multiple choice and Likert-scale ranked questions, either 14 or 12 questions depending on the performance of social audit by the company. First three questions were related to general information about the company, while next four aimed to identify what does the "social responsibility" mean for companies, who are the main stakeholders interested in the performance of social audit, whether company considers itself socially responsible and performs social audit. The following five questions were answered by companies performing social audit and aimed to find out the main flaws and benefits related to this process. While the non-performing companies were asked about the main reasons that would engage them into the social audit procedure and what would be the main benefits of this process. At last companies were asked to express their opinion on the future growth of the social audit in Estonia. This information was compiled and analysed based on the survey questions.

The present section summarizes main findings, which in authors opinion are most important and worth attention.

According to the results of the survey it was revealed that main words associated with the definition of social audit appeared to be "ethics and values" - 90% (110 respondents); "transparency and disclosure" - 59% (72); "environmental responsibility" -53% (65); "human rights" - 52%, (64); and "reporting" - 22% (27). Other 3 respondents have chosen the words "social mobility", "social justice" and "availability of main services". Main stakeholders identified by companies as the ones interested in performance of social audit appeared to be: society - 84%, employees -66%, business partners - 55%, clients - 54%, shareholders - 44% and suppliers - 39%.

In the table 2 there are listed the respondents' rankings of the benefits associated with social audit. It should be noted that most respondents consider themselves well aware of what is social audit and social responsibility, while consider the general awareness on social audit in Estonia quite low.

Statement	Strongly disagree	Disagree	Agree	Strongly agree	Not able to answer
I understand what „social responsibility,, means.	2	9	46	39	4
I understand what „social audit,, means.	11	28	38	17	6
Society awareness on social audit in Estonia is high.	42	42	4	1	11
I consider it necessary to perform social audit in Estonian companies.	9	20	43	10	18
Social auditing in Estonia should be supported by the state.	12	16	39	16	17
Social audit merits more attention in the mass media.	5	14	43	25	13
I would like to get more information about the process of social auditing, main strengths and weaknesses in order to make a decision on the necessity of social audit.	2	12	41	37	8
It is easy to obtain information about social audit in Estonia.	18	52	8	2	20
The interest towards social audit among Estonian companies will grow in the coming years	3	19	37	17	24
The regulation of social audit by the law would make the process social reporting easier, more transparent and clearer to everybody	11	19	40	18	12
In order to give a better overview of the activity of the company social audit could be a part of financial audit; main stakeholders are also the same in both cases.	31	23	28	8	10

Source: Authors'

## Results

**Table 2**

Respondents opinion on social audit in Estonia (% of respondents)

The following tables 3 and 4 present an analysis of replies from companies performing social audit, it is also important that out of 15 companies performing social audit seven claimed to have a special person dealing with this matter.

As becomes evident from the table 3 the main reasons of performing social audit turned out to be desiring to demonstrate the responsibility and values of the company as well as to have a clear idea of how its activities influence various groups of stakeholders, while the satisfaction of clients seems to be least motivating factor. This in turn resulted in the increasing interest from the stakeholders' side and high public respect and recognition as seen from table 4.

**Table 3**

The main reasons of performing social audit by the respondents (the respondents were allowed to choose several options)

Reason	No. of respondents	% of respondents
Desire to demonstrate the values and responsibility of the company	10	67
Desire to evaluate the impact of the activity of the company on different groups of stakeholders	9	60
Desire to improve the decision-making processes of the company	7	47
Desire to increase the transparency of the company's activity	6	40
The decision was made by the parent company	5	33
In order to achieve the satisfaction of clients		7

Source: Authors'

**Table 4**

The main positive influence experienced by the company as a result of the social audit (the respondents were allowed to choose several options)

Impact	No. of respondents	% of respondents
Increase of the interest towards the company from the stakeholders' side	11	73
Gained public respect and recognition	8	53
Gained new knowledge and experience	7	47
Positive impact on the financial indicators of the company's activity	3	20
No positive impact observed	2	13
Other: new clients, client's satisfaction etc.	2	13

Source: Authors'

Companies were also asked to name negative impacts of the performance of social audit (if any) and could choose several options. As a result, companies claimed that the process was too costly (2 replies) and time consuming (6 replies).

The other part of the questionnaire was dedicated to 107 companies currently not performing social audit, the results are presented in tables 5 and 6. As becomes evident from the table 5 the main reasons of non-performing social audit turned out to non-awareness of such option, non-popularity of social audit in Estonia in general and lack of interest among companies.

As clearly illustrated by table 6 among the positive benefits associated with possible future performance of social audit companies selected their desire to demonstrate the responsibility and values of the company as well as possibility to evaluate the impact of its activities on various groups of stakeholders

Impact	No. of respondents	% of respondents
Not aware of this option	44	41
Not popular in Estonia	30	28
Lack of interest from the company's side	21	20
Other reasons: not ready for this process; not necessary for the company; plans to perform it in future, not in our priority list now etc.	18	19
Costly and time-consuming process	19	18
It is difficult to find qualified specialists to perform social audit in Estonia	12	11
Lack of positive impact associated with this process	2	2

Source: Authors'

Impact	No. of respondents	% of respondents
Demonstrates values and responsibility of the company	72	67
Better evaluation of the impact of company's activities on different stakeholders	49	46
Positive impact on society	47	44
Increase in transparency of the company	34	32
Improves decision making processes in the company	24	22
Positive impact on environment	18	17
No positive impact associated with social audit	12	11

Source: Authors'

The companies were also asked what would force them to perform social audit and among the most frequently chosen reasons (respondents could choose several options) appeared the pressure from the stakeholders' side (44%) and the improvement of the financial performance of the company (41%).

The results of the research revealed that the general awareness of the social audit in Estonia is not on a very high level. However, companies are interested in social audit but found it difficult to obtain related information. As seen by companies this gap maybe filled by linking social audit with financial audit procedure. The authors are also of the opinion that in case audit companies provide and promote this service as a package it would inspire higher interest and concern among different organizations. From the research it is also evident that social audit is an important tool in evaluating the performance of companies and increases transparency of business. All respondents also unanimously agreed that this procedure adds value to the image of the company and delivers a clear message of its responsibility to the stakeholders. The main obstacles of performing social audit appeared to be its non-popularity in Estonia and as already stated above low awareness among companies.

– The findings of the survey have various implications:

**Table 5**

The main reasons of non-performing social audit (the respondents were allowed to choose several options)

**Table 5**

Possible positive impact associated with social audit by non-performing companies (the respondents could choose several options)

## Conclusions and discussion

- \_ First, they emphasize that there is an interest towards social audit among Estonian companies, which will continue growing in the coming years as stated by respondents.
- \_ Second, more attention and support should be provided from the state and the audit companies to ensure the sustainable development of the Estonian business community.

In authors opinion, it would make sense to promote education on social audit in different High Educational Institutions of Estonia as well as to organize various trainings and workshops.

Authors are aware of the limitations of the present survey: the sample of the selected companies is quite narrow; however, in future authors consider it useful and interesting to conduct the survey among companies performing financial audit to reveal their opinion.

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**Fields of research interests**

CSR, Social Audit

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