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## SOCIAL AUDIT AS A TOOL FOR ENSURING SOCIAL FOCUS OF BUSINESS

**Abstract.** *This study focuses on the problem of the implementation of social audit in Ukraine. It covers the history of the development of social audit, preconditions for its formation, the status of Ukraine's social and economic development. The history of social audit begins in the last century as philanthropy. The concept of forming a social audit is based on the social responsibility of business, which is based on the need to harmonize the interests of society and business. In Ukraine, social audit is developing slowly, due to the excessive influence of state regulation and insufficient maturity of social responsibility in society. The paper assesses the state of social and economic development of Ukraine and indicators of social security and welfare of the population in recent years, their impact on the need for social orientation of business. Thus, in recent years in Ukraine, the evaluation of the indicators of social security and well-being of the population indicates threatening trends regarding the scale of poverty, a decrease in the standard of living of the population, its economic activity and employment. According to experts, Ukraine is in for a sharp drop in the economy and social standards due to the war started by the Russian Federation. That is, by the end of the current year, half of the population in Ukraine will be below the poverty line. The peculiarities of the implementation of a relevant model of social audit in Ukraine are systematised. Social audit from the point of view of business is a tool of influence on local authorities, as well as a guarantee mechanism. Such a model of social audit will allow monitoring intra-organizational relations, creates conditions for diversification of business structures, mastering new technology and sales markets. Further, a case is made for the necessity of implementation of social audit as a separate area of business' social responsibility, and prospects of the evolution of social audit as part of the national social and economic system are evaluated. Social audit carries out an independent assessment of the activity of the economic system at all levels: state, region, business structure, which forms criteria for evaluating the social, ecological and economic direction of the enterprise, will provide an opportunity to monitor them, and will allow the formation of basic recommendations for ensuring the effectiveness of social responsibility of business.*

**Keywords:** *social audit, social responsibility of business, social costs, social investment.*

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## СОЦІАЛЬНИЙ АУДИТ ЯК ІНСТРУМЕНТ ЗАБЕЗПЕЧЕННЯ СОЦІАЛЬНОЇ СПРЯМОВАНОСТІ БІЗНЕСУ

**Анотація.** Дослідження присвячено проблемі становлення соціального аудиту в Україні. Розглянуто історію розвитку соціального аудиту, передумови його формування. Історія становлення соціального аудиту починається в минулому столітті як філантропія. В основі концепції формування соціального аудиту лежить соціальна відповідальність бізнесу, яка ґрунтується на необхідності гармонізації інтересів суспільства та бізнесу. В Україні соціальний аудит розвивається повільно, через надмірний вплив державного регулювання та недостатню зрілість соціальної відповідальності у суспільстві. В роботі оцінено стан соціально-економічного розвитку України та показників соціальної захищеності й добробуту населення за останні роки, їх вплив на необхідність соціальної спрямованості бізнесу. Так, за останні роки в Україні оцінка показників соціальної захищеності й добробуту населення свідчить про загрозливі тенденції щодо масштабів бідності, зниження стандартів рівня життя населення, його економічної активності й зайнятості. За оцінками експертів на Україну чекає сильне падіння економіки та соціальних стандартів через війну, яку почала рф. Тобто, до кінця поточного року в Україні половина населення буде за межею бідності. Систематизовано особливості формування сучасної моделі соціального аудиту в Україні. Соціальний аудит з позиції бізнесу є інструментом впливу на місцеву владу, а також виступає механізмом гарантій. Така модель соціального аудиту дозволить контролювати внутрішньо-організаційні відносини, створює умови для диверсифікації діяльності бізнес-структур, дозволяє освоювати нові ринки технологій та збуту. Окреслено необхідність становлення соціального аудиту як окремого предмету соціальної відповідальності бізнесу, визначено перспективи розвитку соціального аудиту в вітчизняній соціально-економічній системі. Соціальний аудит здійснює незалежну оцінку діяльності економічної системи на всіх рівнях: держава, регіон, бізнес-структура, який формує критерії оцінювання соціального, екологічного та економічного напрямку діяльності підприємства, дасть можливість проводити їх моніторинг, дозволить сформулювати основні рекомендації щодо забезпечення ефективності соціальної відповідальності бізнесу.

**Ключові слова:** соціальний аудит, соціальна відповідальність бізнесу, соціальні витрати, соціальні інвестиції.

**Introduction.** It was not until fairly recently, at the beginning of the 2000's, that social audit emerged in Ukraine, initially covering only sponsor support and charity initiatives of some business structures. However, social audit as a tool for the development of financial and investment operations and as a mechanism for mediation between business and the state has a long and noteworthy development record. The beginning of the history of development of social audit harkens back to the 1940's, when a social rating system for companies was introduced in the U.S., based on the evaluation of relations with the staff, trade union organizations, as well as volunteering and philanthropy initiatives.

The formation of the concept of social audit was underpinned by the social responsibility of business, which is based on the necessity to align the interests of society and business, business's acceptance of "broad" non-financial obligations, and neutralizing social risks. The alignment of divergent interests of business, society and the state in the long run results in mutual benefits and advantages for all stakeholders of this process.

The problems of social audit and the formation of social responsibility of business are widely considered by many scientists. Among the scientists whose works consider both the theoretical foundations of social responsibility and the practical aspects of their implementation, V. Bezbozhny, S. Mel'nyk, O. Mazuryk, A. Berzhanir, F. Eivani, K. Nazari, M. Emami, K. Govindan, M. Shaw, A. Majumdar and others. However, in the refereed works there is no single opinion regarding the essence of social audit and its practical implementation.

The purpose of the study is to reveal the theoretical and practical aspects of social audit and its impact on the social responsibility of business. To achieve the set goal, the following tasks are expected to be solved in the work: to investigate the specifics of social audit and the Ukrainian social space; to study the problems of the formation of social audit in Ukraine; to evaluate directions of formation of social audit.

**Materials and methods.** Research materials are scientific works of domestic and foreign scientists on the theory, methodology,

methodology, organization and practice of social responsibility and social audit, materials of scientific and scientific-practical conferences, statistical information, regulatory and legal acts, international practice of social audit formation.

The work uses the dialectical method, which made it possible to explore the essence of the concept of “social audit“, the method of system analysis, which makes it possible to evaluate social standards and social costs and to identify the relationships of its components. Methods of synthesis and abstraction are widely used to study the justification of concepts. The bibliographic method was used to study the genesis of the concept of “social responsibility“, “social audit“ and the relationship, and the classification method was used to systematize the features. Social costs were estimated using statistical methods. As a result of the combination of the system approach, the historical method, the methods of analysis and synthesis, the existing theoretical provisions regarding the definition of individual definitions and phenomena were systematized. The specific solution of the tasks set in the work was carried out by means of observation and generalization, description and comparison.

**Results.** The first use of the term “social audit“ is generally attributed to George Goyder in the 1950s. The roots of the idea lay within the perceived need at that time to make business more accountable to the community, and to ensure that the impacts of business – both beneficial and non-beneficial – are understood by society position [1; 10].

For the time being, social audit in Ukraine is rather slow and not promoted sufficiently to develop by the business community and the state. This may be attributed to the specific workings of the national social and economic system, in which the dominance of adaptive potential over innovative practices, the excessive role of the state in delineating and reformatting the social space, and the immaturity of public associations prevail. There are also other, equally significant, reasons that determine the peculiarities of the operation of social audit.

The emergence of market-based domestic economy went hand-in-hand with social

transformations that hardly relied on the traditions of social philanthropy and business culture, as was the case in the West.

In terms of Ukrainian practices, social audit is perceived as synonymous with the state’s monitoring of businesses’ operations and does not involve the acceptance of corporate social responsibility by social audits themselves. Thus, a draft Concept for the Formation of a National Model of Social Audit was developed. The main difference between this Concept and its international peers is that social audit is integrated into the social partnership system. The draft Concept states that not only owners or managers of businesses, but also social partners (employers, trade unions, representatives of government agencies and non-governmental entities) may act as stakeholders for the purposes of social audit [1; 2; 5]. Moreover, the existing system for grading businesses in terms of their proximity to the state largely discards the significance of social audit indicators that describe the level of social responsibility of businesses and the growth of their reputation [3; 8; 10].

Social audit, as a social monitoring procedure, requires stable and sustainable development in capital formation and an effective management to ensure the independence of the impact of external factors.

Globalization processes promoted exposure to standards of civilized social conduct and the growth of economic potential and impacted the prospects for the development of social audit in Ukraine. Regrettably, however, the growth of economic potential did not come with an increase in social influence. Thus, at present, the growth of production output required for the development of society should be estimated with reference to human potential development indicators. Transforming Ukraine into a country with a democratic system, civil society, and a socially focused market economy requires that the government at all levels (especially at the local level) admit that human development is both an ultimate and a key objective. This said, expenditure on education, healthcare and social security should be considered not only as “spending” of public funds but also as social

investment (especially in combination with necessary reforms) that could have a significant and lasting impact on Ukraine's development. People are becoming the core of human progress, because the development of human resources is not only a key objective, but also the most important determinant and factor in the nation's social and economic development [6; 7].

The study of recent years' status of social and economic development of Ukraine and social security and welfare indicators points to critical trends in terms of poverty, lower standard of living across the nation, and its economic activity and employment rate.

The data in Table 1 highlight the status of social standards in Ukraine, the assessment of which confirms critical trends relating to the social component of the national economy.

In Ukraine, the poverty level increased tenfold due to the war. The World Bank said that

the situation could worsen over time. Thus, by the end of 2022, about 25% of the population of Ukraine will live in poverty compared to a little more than 2% before the invasion of the Russian Federation. By the end of 2023, this figure may increase to 55%.

So, it can be predicted that Ukraine will face a severe economic downturn due to the war started by the Russian Federation. Our country is in dire need of huge funding. In general, according to the estimates of the World Bank, according to the results of 2022, the economy of our country will fall by 30%. However, taking into account the losses, according to experts' estimates, the economy of Ukraine will be destroyed by an average of UAH 1 billion. daily.

In Table 2, the social expenditure indicators in Ukraine pointing to an adverse trend in social standards are summarized. Since we are currently seeing a staggering rate of inflation,

Table 1

#### Indicators of Social Standards in Ukraine, 2012–2020, UAH

Indicator	2012 p.	2013 p.	2014 p.	2015 p.	2016 p.	2017 p.	2018 p.	2019 p.	2020 p.
Average living wage per person per month	1050	1142	1176	1253	1544	1623	1777	1936	2118
Living wage	1104	1183	1218	1378	1600	3200	3723	4173	4723
Average monthly wage per full-time employee	3026	3274	3480	4362	5202	8777	10573	12264	14179
Minimum retirement age pension	849	922	949	1011	1247	1426	1435	1638	1769

Source: [7]

Table 2

#### Indicators of Social Expenditures in Ukraine, 2014–2022

Indicator	Measurement unit	Standard value	2014	2015	2016	2017	2018	2019	2020	2021	2022 (forecast)
Average monthly nominal wage	UAH/USD	min. USD 633.9	3480/292,9	4195/161,3	5183/199,3	7104/264	8865/315	1049/379	11987/506	17453/614	14577/398
Share of population with total expenditures below 75% of the median level of aggregate expenditures (poverty level)	%	max. 25	28,6	58,3	58,6	47,3	43,2	37,8	43,6	39,9	57,6-79,3
Unemployment rate (based on ILO methodology)	%	max. 10	9,3	9,1	9,3	9,5	8,8	8,2	9,9	10,3	30

Source: [7; 9]

the forecast indicator points to an exacerbation of the financial and economic crisis of Ukraine, a further likely growth of the consumer price index and devaluation of the national currency, and, as a result, a decline in living standards and increased poverty.

Given the above, it is expedient to set social standards through social audit, which may be considered as a mechanism for the exercise of the social function by public governance and as a tool for ensuring the social security of business and the state. Social audit will enable the development of a social risk management system and achieve strategic social goals to help avoid social conflicts and enhance economic security.

In today's Ukraine, social audit has its specific features. The state, as the regulator of the social and economic development of economic systems, in most cases, acts as the driving force behind the implementation of social audit. Moreover, social audit concerns large businesses and does not cover small and medium business structures. Such disparity translates into the need to strengthen the social efficiency of business, develop a methodology for assessing social responsibility tools, and explore the peculiarities of the implementation of social audit and the synthesis of its results, all of which is necessary to make social audit effective in balancing the social dimension. At the same time, the development of an effective mechanism of efficient social audit will reduce existing social tensions by eliminating social imbalances, enhancing social balance, balancing businesses' financial and social performance indicators, and promoting building relations between the government and society on an equal footing [2; 4; 6; 10].

Viewing social audit from business' standpoint, it may serve as a tool of influence on local government, as well as a safeguards mechanism affording protection against bureaucratic pressure and corrupt practices on the part of specific state structures or officials. In addition, social audit provides an opportunity to monitor internal organizational relations and creates conditions to diversify operations of business structures and tap into new technology and sales markets.

What matters, in our opinion, is not only the development of social audit as an effective mechanism of corporate social responsibility, but also promoting the awareness of its role and importance in the Ukrainian business environment. With this in mind, social audit needs to become an indicator of social security not only for each economic entity, but also for a specific region and the state on the whole. Such an independent assessment of a business's operations will make it possible to work out criteria for assessing its social, environmental and economic trends, monitor them, and develop basic recommendations to ensure the effectiveness of such business's social responsibility. In this respect, the key feature of social audit is its determinant impact on the business's financial and economic operations, which comes across as a synergy effect deriving from the development of the social and investment policy mechanism of the business concerned.

Based on this, it is possible identify the main problems that arise in the process of implementation of social audit in the Ukrainian economic landscape. First and foremost, the state's influence on the operations of business structures is reduced to the application of legal and fiscal mechanisms. This is why one of the problems encountered in the process of the social engagement of business is redistribution of financial resources. It is well known that the concentration of capital in large cities exacerbates the problem of social support in smaller towns. However, it is important to note some progress in the efforts of major businesses to contribute to the development of infrastructure, education, sports facilities etc. Such initiatives are not systematic in nature or based on social audit criteria as a manifestation of socially responsible conduct, but remain largely linked to personal preferences of the owners or the management of businesses or to the cooperation schemes offered by regional authorities.

As evidenced by today's practices, the key adverse trend in the implementation of social audit is the lack of objective assessment of businesses in terms of social responsibility and options for raising social investment, which,

in turn, is associated with corruption schemes and lobbying the vested interests of specific businesses. Occasionally, such businesses avoid paying taxes by creating different funds, but they do not address the problems of development of local infrastructure or implementation of educational or professional projects.

Objective obstacles to the implementation of social audit as a system for regulating relations between the state and business also include the traditional priorities of domestic business. Such obstacles are embodied in the administrative regulation mechanism that more often than not fails to meet social requirements related to social audit practice.

In academic discourse [1; 5; 10], two predominant positions concerning the state and business' stance towards social audit, both of which distinguish it as an independent activity, have taken shape. From the state's perspective, social audit is considered to be an effective positive measure based on a comprehensive and objective assessment of the status of social relations at different levels (corporate, municipal, industrial, regional, national), which allows to identify potential threats of the degradation of social climate and unlock reserves for human resources development [3].

The second position focuses on the inclusion of social audit provisions into the operations of businesses and identifying potential problems (first of all, of social nature), assessment of their importance, the reasons for their emergence and opportunities for resolution, the development of specific recommendations for the management of businesses to address pressing issues and eliminate their consequences. Social audit will also cover the long-term evaluation of businesses' ability to solve social problems [8].

Thus, it should be noted that, under existing circumstances, the state has to create the most favorable conditions for the development of businesses capable of addressing unemployment problems and augmenting household income. However, analyzing the peculiarities of the development of social audit in Ukraine, we can say that such a model does not work and has no constructive theoretical and social footing

against the backdrop of the flawed operation of market mechanisms in Ukrainian society.

Therefore, social audit requires the application of a multidimensional model consisting of individual subsystems, specifically:

1. The development of the subsystem of consulting services on the effectiveness of the implementation of the social focus of business. Specific recommendations, assessment and analysis of the effectiveness of social audit are to be provided within such system. Regrettably, the existing practice in Ukrainian society may not be expected to go beyond compliance with social audit provisions as part of monitoring by international and Ukrainian state structures or international expert auditors. The accumulation of transparent and reliable information and its evaluation, as available to non-governmental organizations in the West, does not generate public interest and does not lead to a new level of business competitiveness.

2. Preparation of social reporting in compliance with the standards of social focus of business. Problem remains that social audit is limited exclusively to solving fiscal problems or problems of a communication nature in terms of maintaining relations with the state. However, there is every reason to believe that the issues of social audit are undergoing structural changes in Ukrainian society. Although the preparation and disclosure of social reporting by companies have not been mandated, today many business structures prepare and publicly disclose such reporting.

3. Fostering a social climate among the personnel as a criterion for socially responsible conduct. Under existing conditions, the implementation of the social audit system requires the shaping of a socially responsible conduct, which, as Ukrainian practices indicate, develops by the trial and error method. The reason for this is the lack of public guidelines, competent professionals in the area, and a relevant expertise in civil society.

4. The social component of public policies implies that the state plays a key role in the development of socially responsible business. While, in the international market, there exist

dozens of organizations that deal with social investment issues and offer services in conducting social audit in West Europe alone, the Ukrainian society is still at the stage of institutionalisation of social audit practices. As options for socially responsible investment, business is offered either national and regional social projects or solving notably social tasks.

Considering that business is primarily focused on generating profit and economic growth, options for its socially responsible conduct are unlimited. At the same time, the impact of globalization and social economy put up new challenges, one of which is the availability of a structured social audit that would enjoy a reputational influence with both the business community and the government.

Currently, the task is to ensure that social audit becomes disseminated at all levels of social relations within the business community: local, regional, and nationwide. The development of an effective model to enable a more accurate identification of development priorities, business' social responsibility areas, and, most importantly, its relation with the state will open up relevant prospects.

As the existing approach prevailing in the West suggests, despite the state's efforts towards the implementation of social policies at the appropriate level, the bottleneck is not the effectiveness of public spending, but actual outcomes focused on the final decision from the top-down. It makes sense to refer to the fact that many major businesses showcase an exemplary dealing with the social responsibility problem, or, at least, have been able to overcome very real tendencies for corporate segregation.

Methodological indicators are determined by the actual system of relations between the business community and state and non-governmental organizations. Accordingly, the analogous indicators are the internal and external indicators of businesses themselves.

While indicators related to an external impact appear quite clear, internal indicators, determined by a business's social policies, are hardly sufficiently verified. It is advisable to introduce institutions of independent experts or

organizations, but only to the extent that their activities are focused on resolving incidents on the basis of dialogue between and alignment of interests of social auditors and audits.

Such indicators may be divided by sources of information, whether expert evaluations, focus groups, content analysis or statistical data. However, despite the numerical prevalence of statistical data, social audit may only be implemented on the basis of parameters derived from the sociological method. Given the limited means for verifying and comparing social audit data in Ukrainian society, as well as the impact of objective factors, it is necessary to highlight the main areas of social audit capable of supporting the development of more conceptually oriented foundations for the public, the business community, and the state.

Definitely, the key criterion is the social responsibility of business, which involves active dialogue-based policies on the part of the state and a developed structure within (trade unions) and outside (civil organizations) the corporate community. Qualitative differences of social audit in Ukrainian society are determined on the basis of interaction between society and the state.

Therefore, firstly, a group of social auditors committed to lobbying interests associated with the creation of institutions, i.e. the development of an effective mechanism of mutual relations, shall be identified. Secondly, organizational and regulatory criteria associated with conditions for common practice shall be identified. Thirdly, criteria for social audit include the development of clear subjective guidelines and involvement of members of the business community and experts into the implementation of social investment programs.

**Results.** Currently, the need to implement social standards puts up new challenges, and one of the effective tools for transition to the next level is social audit. Social audit will solve two problems: enhance the social responsibility of business and foster economic growth. To meet quality requirements to social audit, special attention should be paid to streamlining the mechanism for the establishment of government structures, in which it will be necessary to

determine the legal and social incentives for social reorientation of their operations. In this connection, it is paramount to provide legal support in the course of implementation of social audit and build an independent expert community.

The study of the place of social audit within the economic system shows that social audit is an analytical category related to the interdisciplinary approach to the problem of social engagement of business in the context of social regulation of relations between society, the state, and business structures.

From the viewpoint of theoretical research on social audit in Ukraine, the bottom line is that existing approaches provide only theoretical

fundamentals for personnel audit, while, as sociologists point out, it is necessary to change perspective towards a new qualitative dimension of the study of methodology, procedure and conceptualization of social audit as the main component of human management and development of human capital.

Social audit in the Ukrainian society develops piecemeal, constantly facing the issues of administrative management and corporate isolation, which prevents the transition to a social audit system supported by an independent expert community and the definition of the scope of social partnership between society, the state, and business structures.

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