

Is social auditing a key tool for achieving sustainable development goals? A study of Malaysian-listed companies

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Abstract. The objective of this study is to investigate the relationship between social audit and Sustainable Development Goals implementation. Stakeholder theory prioritizes stakeholder perspectives, helping companies accept societal concerns and align with the SDGs through social audits. The study's data sample consisted of 74 Malaysian companies from 2021 to 2022. We sourced the SDG data from each company's official website and collected other variables from their annual reports, such as social audits, company size, debt level, liquidity, and profitability. The fixed effect regression analysis shows that social audit has a negative relationship with the Sustainable Development Goals. Social audits can reveal deficiencies in company practices, potentially lowering the perception of Sustainable Development Goals performance. The study emphasises the need to assess the effectiveness of company accountability mechanisms, like social audits, in promoting positive social and environmental outcomes. Social audits in promoting corporate responsibility if they impede progress towards the Sustainable Development Goals. It may be necessary for companies to reconsider the practice of social audits and incorporate Sustainable Development Goals into their business strategy. Additionally, regulators may need to modify rules to match sustainable development goals more effectively. This will facilitate stakeholder participation and promote ongoing enhancements.

Keywords: Audit, Disclosure, Social, Stakeholder theory, Sustainability, Sustainable development goals.

1 | INTRODUCTION

The Sustainable Development Goals (SDGs) of the United Nations have become a global call to action in the fight for sustainable development, ending poverty, safeguarding the environment, and ensuring prosperity for everyone. Reaching these lofty objectives calls for a multi-pronged strategy that includes active participation from corporations, civil society, other stakeholders, and government initiatives. Social audit is one of the many tools used to track the SDGs' development, and it's particularly effective at evaluating the social, environmental, and financial effects of different programs and activities (Vinšalek-Stipič, 2022). The social audit's emphasis on accountability, transparency, and stakeholder participation advances the SDGs and sparks significant change.

Social auditing fundamentally assesses an organisation's performance concerning its sustainability goals, ethical pledges, and social contributions (Gao & Zhang, 2006). Through thorough evaluations, social audits identify whether policies, programs, and initiatives perpetuate inequality and damage the environment, or whether they positively contribute to societal well-being and environmental preservation (Gao & Zhang, 2006; Salathé-Beaulieu, 2019). This reflective approach goes beyond mere adherence to rules, delving into the actual consequences and effects of activities, and providing invaluable insights into potential areas for optimization and improvement. Within the framework of the SDGs, social audit transforms international goals into localised, implementable plans, ensuring that progress is not only quantifiable but also worthwhile and equitable.

Bursa Malaysia, Malaysia's leading stock exchange, recognizes the importance of social audits in promoting transparency and accountability among listed companies. To boost investor trust and promote sustainable business practices, the exchange has launched programmes to encourage companies to go through social audit verification. Through its listing regulations and guidelines, Bursa Malaysia actively encourages sustainability disclosure and pushes for the inclusion of sustainability concerns in company reporting (Bursa Malaysia, 2015). Bursa Malaysia supports its commitment to cultivating a sustainable capital market ecosystem that facilitates long-term wealth generation and advances Malaysia's sustainable development objectives by tackling social audit verification.

Petronas, a prominent Malaysian oil and gas company, has implemented social and audit verification. Through a variety of programmes and actions meant to reduce its impact on the environment, advance social welfare, and preserve moral principles, Petronas has shown that it is strongly committed to sustainability. To assess its sustainability performance and ensure compliance with international standards and optimal methodologies, the company regularly undertakes external audits conducted by reputable auditing companies. Petronas produces comprehensive sustainability reports to demonstrate its commitment to societal and environmental improvement, as well as its pursuit of commercial excellence. These reports provide transparent insights into the company's sustainability initiatives, encompassing environmental, social, and governance (ESG) aspects. Petronas also advances sustainable development in Malaysia and abroad by putting itself through social audit inspection and verification, demonstrating its commitment to responsible corporate citizenship.

Furthermore, the participatory aspect of social audit closely aligns with the core SDG pillar of leaving no one behind. The audit process gives diverse stakeholders, especially underrepresented groups, a voice and the ability to hold decision-makers accountable for their actions (Fox, 2015). By encouraging a sense of shared accountability and ownership for attaining sustainable development, this inclusive strategy strengthens cross-sector partnerships and collaborations. As a result, social audits serve as both a tool for evaluating progress and a catalyst for advancing fairness, social cohesion, and revolutionary transformation that will lead to the achievement of the SDGs (Owen, Swift, Humphrey, & Bowerman, 2000).

The study aims to investigate the potential of social audit as an effective method for promoting sustainable practices and solving societal concerns through an examination of corporate operations. Social audit plays a crucial role in promoting accountability and fostering positive change