



What is a Social Responsibility Audit?

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KH Know-How

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During the last decade, more public agencies and private companies pursuing a social purpose in their business strategy and activities, are guided by social and environmental criteria, such as:

- Environmental impact
- Workplace practices
- Product safety and impact (including weapons manufacture and defense contracting, production of tobacco and alcoholic beverages, nuclear power, waste disposal, and gambling)
- Human rights impact
- Indigenous peoples' rights
- Relationships with communities in which companies do business

Part of this strategy may be a goal to be selected as one of the "100 best companies for..." family friendly work places, environmentally "green" work sites, etc. Moreover, more organizations are encouraging their employees to share their time in relevant volunteer or community activities. To achieve high levels of corporate responsibility throughout an organization, all employees must "walk the talk."

A social responsibility audit outlines an organization's strengths and weaknesses, specifically in the areas of corporate social and environmental responsibility, encompassing:

- Corporate governance and business ethics
- Strategy, both in terms of its business and social purpose strategy
- Mission and business objectives
- Corporate culture and values
- Community impact and corporate citizenship
- Environmental impact

- Human resources policies and practices
 - Employee relations
 - Diversity practices
 - Pay and benefits practices
 - Workplace practices
- Procurement practices
- Transparency and disclosure of relevant business operations, such as fund management, holdings, proxy voting, etc.
- Sustainability
- Resilience

Organizations should also be concerned about processes that could either reinforce or diffuse their commitments and practices in social responsibility. Social responsibility audits cannot be one-time events but rather are ongoing processes of building competence in business ethics, governance, sustainability, and social impact.

SOCIAL AUDIT ASSERTIONS AND INVESTIGATIONS

KH Consulting Group (KH) has designed a framework for investigating organizations that make social purpose commitments, as shown in the following pages. The left column describes social philosophy or assertions that many regard as ideal situations; the right column delineates the kinds of steps our team could take to investigate each assertion.

SOCIAL COMMITMENT BEST PRACTICES AND
KH INVESTIGATIONS

SOCIAL COMMITMENT BEST PRACTICES	KH INVESTIGATIONS
<p><i>Fiscal Responsibility: The organization conducts its operations in a fiscally responsible manner, acknowledging its responsibilities to all stakeholders.</i></p>	
<p>Fiscal Policy: The organization has implemented fiscal policies, financial management systems, and accounting controls that help to ensure fiscal responsibility and long-term viability.</p>	<ul style="list-style-type: none"> ■ Obtain and review the financial policies and procedures manual. ■ Document our understanding of accounting controls in place. ■ Review the most recently audited financial statements and related management letter. ■ Obtain the investment policy and determine if provisions are made for socially responsible investing (e.g., is the composition of the portfolio communicated to all concerned stakeholders?). ■ Obtain management’s representation and attorney letter concerning whether any lawsuits have been adjudicated or are pending related to financial management and anti-trust law.
<p>Financial Reporting: The organization makes a commitment to accurate, clear, and timely financial reporting. Responsible companies report its financial position in plain language to employees at least annually (and to other stakeholders if required by law).</p>	<ul style="list-style-type: none"> ■ Interview management to determine if any form of open book management is practiced. ■ Discuss with Board of Directors’ members their respective involvement in financial reporting. ■ Determine whether the organization reports on pension or other benefit programs to employees in plain language periodically. ■ For not-for-profit organizations, determine if the amount of program versus administrative expense is reported to donors and grantors.
<p><i>Environmental Responsibility: The organization minimizes its environmental impact, emphasizing pollution prevention over remediation processes. It integrates environmental factors into all elements of business decision-making, including business plans, corporate goals, program planning and strategic planning.</i></p>	
<p>Environmental Regulations: The organization strives to comply fully with all environmental laws and regulations in the jurisdictions in which it operates.</p>	<ul style="list-style-type: none"> ■ Discuss applicable laws with management and the individual responsible for compliance. What procedures does the organization follow to ensure compliance? ■ Review any communication with EPA or other regulatory agencies concerning environmental laws. ■ Search public records as deemed necessary. ■ Obtain management representation and attorney’s letter concerning whether any suits have been adjudicated or are pending related to environmental laws.

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<p>Environmental Policy Statement: The organization has a policy statement committing it to minimizing its impact on the environment. This policy statement is communicated to all stakeholders and is freely accessible in the workplace.</p>	<ul style="list-style-type: none"> ■ Obtain the written policy statement and discuss with management and Board members to determine if a demonstrated commitment to the environment exists at the top of the organization. ■ Tour facilities and discuss the policy statement with employees.
<p>Environmental Management Procedures and Programs: The organization has specific procedures and programs in place to reduce the environmental impacts throughout its operations. These initiatives may include air quality control, energy conservation, land management, waste reduction, and water conservation. Employees receive adequate training to assist them in implementing these procedures and programs.</p>	<ul style="list-style-type: none"> ■ Review documentation of specific procedures and discuss them with employees. ■ Determine the amount of training employees receive in regards to environmental procedures and programs ■ Interview management to determine if the organization updates its practices regularly as new technology and a better understanding of environmental impacts become available. ■ Determine if the organization has specific environmental objectives. How are these objectives monitored and updated?
<p>Environmental Management Communications: The organization communicates its environmental activities and accomplishments through employee newsletters and corporate reports. In addition, the organization communicates environmental activities and accomplishments to external stakeholders through corporate environmental assessments.</p>	<ul style="list-style-type: none"> ■ Obtain copies of communications and discuss with employees, vendors, customers and Board members. ■ What procedures are in place to inform in a timely manner all individuals who may be affected by conditions caused by the organization that may endanger their health, safety, or the environment?
<p>Environmental Management Procurement: The organization seeks, encourages and gives preference to suppliers and subcontractors whose environmental practices meet the standards the company sets.</p>	<ul style="list-style-type: none"> ■ Discuss procedures for purchasing from environmental-friendly vendors with procurement personnel. ■ Interview key vendors to determine if they have established environmental policies.
<p>Environmental Management Structure and Human Resources: The organization has at least one staff member whose responsibilities include overseeing corporate environmental initiatives. This employee oversees the development of the environmental policy statement and implements environmental programs and initiatives. The organization also encourages broad employee</p>	<ul style="list-style-type: none"> ■ Discuss with management and document our understanding of the structure of the organization's environmental programs. ■ Is the structure appropriate for the size and nature of the organization?

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<p>participation through the establishment of environmental committees.</p>	
<p>Marketplace Practices: <i>The organization consistently interacts with its customers in a fair and honest way. They also treat competitors, contractors, suppliers, and stakeholders with integrity and respect.</i></p>	
<p>Consumer Protection: The organization will comply with all relevant consumer protection laws and regulations.</p>	<ul style="list-style-type: none"> ▪ Discuss with management the organization’s procedures for complying with consumer protection laws. ▪ How does the organization ensure product quality, fair price, and meeting customer needs? ▪ Obtain management’s representation and attorney letter(s) concerning any consumer protection lawsuits that have been adjudicated or are pending. ▪ Perform a public record search, as considered necessary. ▪ For not-for-profit organizations, discuss with management, operations personnel, and accounting personnel how the organization ensures contributions/grants are used in accordance with donor/grantor restrictions.
<p>Advertising and Marketing Practices: The organization markets its products and services in a truthful way, avoiding false claims. The organization advertises and markets without discriminating against, or stereotyping, any person or group.</p>	<ul style="list-style-type: none"> ▪ Obtain the marketing policy and interview marketing personnel to understand marketing procedures. Review how the organization establishes its target market, what price it sets, and how products are promoted. ▪ Interview customers/donors to gauge their perception of marketing practices. ▪ Discuss with management, marketing personnel, and manufacturing/research personnel whether the organization has disclosed information about product content and identifiable risks appropriately. ▪ For not-for-organizations, discuss with management how internal operations reflect the publicly stated mission and objectives.
<p>Customer Satisfaction: The organization publicly declares its customer satisfaction policies, including return policies, exchange policies, product guarantees, and a customer service telephone number. These policies are displayed prominently at the point of purchase or are made available to clients.</p>	<ul style="list-style-type: none"> ▪ Interview marketing manager(s) and customers to determine the extent of the organization’s customer satisfaction policies. ▪ Determine if the organization engages the customer in conversations about products and social goals through interviews with management and customers.
<p>Suppliers: The organization makes fair and prompt payment to all contractors and suppliers.</p>	<ul style="list-style-type: none"> ▪ Understand controls over the disbursement cycle and voucher payments, as considered necessary, to ensure proper payment. ▪ Discuss with the procurement agent and vendors whether the

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	<p>organization attempts to foster long-term stability in supplier relationships. Does the organization attempt to share information with suppliers and integrate them into the planning process?</p> <ul style="list-style-type: none"> ■ Interview vendors to determine if the vendors have any formal social responsibility programs in practice.
<p>Ethics Policy: The organization has developed a policy of ethical conduct in the marketplace.</p>	<ul style="list-style-type: none"> ■ Review the code of ethics and discuss it with management, employees, human resources personnel, marketing personnel, accounting manager, procurement personnel, and Board members. ■ Discuss awareness of Federal Sentencing guidelines and Foreign Corrupt Practices Act. ■ Is the code specific, comprehensive, clear, realistic, and enforceable? ■ Gain an understanding of the extent of the organization's ethics program (i.e., fraud or ethics hot line, training, ethics officer, awareness of ethical climate) through discussions with management and Board members.
<p>Dispute Resolution: The organization resolves customer or supplier disputes quickly and fairly.</p>	<ul style="list-style-type: none"> ■ Discuss with management the organization's procedures for resolving disputes. Review complaint files to determine the type of complaints filed and how long they were outstanding. ■ Interview customers and suppliers to determine if disputes have been handled satisfactorily. ■ Determine the number of complaints filed against the organization at the Better Business Bureau, Society of Consumer Rights, or similar watchdog organizations.
<p><i>Accountability: The organization audits, monitors, and publicly reports its social and environmental performance to ensure accountability to all of its stakeholders.</i></p>	
<p>Social Responsibility Audits: The organization undertakes a regular review of its social and environmental policies and initiatives. This review ensures that the company meets or exceeds its own standards of performance and measures progress toward stated goals. This social and environmental review also assists a socially responsible company in defining measures of success and upgrading its strategic goals over time. The social and environmental audits can be conducted at one of three levels:</p> <ul style="list-style-type: none"> ■ Self-audits 	<ul style="list-style-type: none"> ■ Review the organization's mission and statement of values. Are these aligned with its program of social responsibility? ■ Discuss with Board members, management, and employees to determine if the mission and values guide the company's actions and are integrated into the organization's business processes. ■ Obtain the organization's written social responsibility policy and discuss with management, including provisions for regular review of implementation and methods for revisions? ■ Has the organization committed the time, personnel, and other resources needed to execute this policy? ■ Discuss with management and Board members the organization's strategy for conducting social responsibility audits.

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<ul style="list-style-type: none"> ■ Peer reviews ■ Comprehensive audits undertaken by independent consultant(s) 	<ul style="list-style-type: none"> ■ Discuss potential findings and management letter comments with management. ■ Obtain an understanding of any corrective action plan that will be put into effect. Has the organization acted in a way that demonstrates that its social responsibility program is a process of constant improvement rather than strict compliance to specific standards?
<p>Reporting: The organization has a written and public policy that commits it to full public disclosure and the protection of internal critics (whistle blowers).</p>	<ul style="list-style-type: none"> ■ Obtain the policy and discuss with management and employees.
<p>Communications: The organization anticipates and responds to stakeholder concerns about the potential social and environmental hazards and impact of its products, services, and operations, including those of interstate or global significance.</p>	<ul style="list-style-type: none"> ■ Read Board Minutes through audit completion date. Discuss with management the methods that the organization communicates information with stakeholders. Examples of relevant information include: <ul style="list-style-type: none"> □ Ownership information □ Relevant corporate history □ Legal/regulatory claims □ Product information □ Employment data □ Lobbying and political activities □ Major government contracts □ Social responsibility characteristics (i.e., sell tobacco) □ Fines levied against organization □ School impact data □ Contributions to nonprofit organizations ■ Determine if the organization will publicly communicate the results (report any findings and measures taken to correct findings) of this social responsibility audit.
<p><i>Community Development: The organization affirms the interdependence of its enterprise with the well-being and self-reliance of the community. The organization builds enduring and mutually beneficial partnerships with the communities in which it operates and interacts.</i></p>	
<p>Community Involvement: The organization’s community partnership policy is in written form and is publicly available. The policy commits the organization to forging enduring community partnerships and long-term relationships that contribute to the quality of life in the community.</p>	<ul style="list-style-type: none"> ■ Obtain a copy of the policy and review with Board members. Determine if the organization has made a formal commitment to community involvement at the top. ■ Discuss community involvement with management (or the individual in the organization responsible for community development), including objectives, policies and procedures, and review mechanisms.
<p>Communications with the Community:</p>	<ul style="list-style-type: none"> ■ Review newsletters, bulletin boards, publications, etc.

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<p>The organization provides information on local and regional social issues to its stakeholders through events and services, including company newsletters, “brown bag” sessions, and public bulletin boards.</p>	<ul style="list-style-type: none"> ▪ Discuss with management what procedures are in place to obtain and provide information. ▪ Gauge stakeholders’ knowledge of the availability of information through inquiry of employees, customers, vendors and Board members. ▪ Conduct written surveys, if necessary.
<p>Internships: The organization provides opportunities for work placements, internships, or similar in-house training opportunities in partnership with local educational institutions or community organizations, when appropriate.</p>	<ul style="list-style-type: none"> ▪ Discuss with management what procedures are in place to identify and implement partnership opportunities. ▪ If partnerships do exist, interview personnel at community organizations to determine effectiveness.
<p>Donations: The organization donates at least __% of pre-tax profits to charitable organizations (averaged over the previous three fiscal years), of which up to __% may be contributed in volunteer time or donations in-kind. (While it may not be appropriate for not-for-profit organizations to make monetary contributions, they should consider contributing volunteer time.)</p>	<ul style="list-style-type: none"> ▪ Discuss with management the organization’s donation procedures, including the process used to determine how much is given, to whom, when, and what type of donation (i.e., cash, volunteer time, product). ▪ Does the organization have any type of employee matching contribution program? ▪ Determine the amount donated in the last year through discussions with management and review of accounting records and receipts. ▪ Discuss with management how contribution of volunteer hours is encouraged within the organization and how the organization tracks such hours.
<p>Community Economic Development and Locally-Directed Investment: The organization gives priority to local employment and local suppliers.</p>	<ul style="list-style-type: none"> ▪ Obtain a copy of the purchasing policy and discuss procedures for using local suppliers with procurement personnel. ▪ Discuss hiring practices with human resources personnel. ▪ Review a list of the most frequently used vendors to determine the extent to which local suppliers are used.
<p>Investments in the Community: The organization allocates __% of its annual donations budget to local community and economic development projects that address job skills training, job creation, and self-sufficiency training.</p>	<ul style="list-style-type: none"> ▪ Discuss with management what contribution procedures are followed for local community development projects. ▪ Review a list of donations to determine the amount that is given to community development projects and review supporting documentation, as considered necessary.

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<p><i>Diversity: The organization provides fair employment and promotion opportunities to the communities in which it operates. This commitment is reflected in policies and practices concerning employees, customers, and suppliers that remove barriers to participation and actively encourage involvement.</i></p>	
<p>Equal Opportunity <i>Internal:</i> The organization substantially complies with all local, state and federal guidelines (Title VII, ADA, ADEA, FEHA, etc.) and provides equal opportunity regardless of race, gender, religion, handicap, national origin, sexual orientation, marital status, or age.</p>	<ul style="list-style-type: none"> ■ Discuss with human resources personnel how the organization ensures civil rights compliance and determine whether the organization has announced a formal policy of nondiscrimination. Does the organization have any programs to encourage minority development (break the “glass ceiling”)? ■ Tour facilities, noting if an EEO posting is available for all employees to inspect (if required by law or federal grant). ■ Determine the number of complaints filed with federal, state, or local agencies responsible for ensuring nondiscrimination, the status of unresolved complaints or investigations, and the actions taken on resolved complaints or completed investigations. ■ Obtain management representation and attorney’s letter(s) concerning whether any civil rights suits have been adjudicated or are pending.
<p>Equal Opportunity <i>Pay, Hiring, and Promotions:</i> The organization provides equal access to employment and promotion opportunities through policies and programs that commit it to the concept of equal pay for equal work (pay equity) and fairness in hiring and promotion (employment equity).</p>	<ul style="list-style-type: none"> ■ Review job postings for appropriate nondiscrimination language. ■ Review payroll register/employment contracts to ensure that material discrepancies in compensation do not exist at equivalent responsibility levels. ■ What criteria are used to measure progress toward pay and employment equity? ■ Determine if the organization tracks the number of minorities in management positions. If yes, compare the number to prior years to determine trends. ■ Gauge perception of pay and employment equity in the organization through interviews with employees. Conduct a written survey, if necessary.
<p>Equal Opportunity <i>External:</i> The organization ensures that all qualified businesses have an opportunity to supply and service contracts, with preference given to local firms. Equal opportunity can be achieved through such mechanisms as a fair bidding policy, and social purchasing policy.</p>	<ul style="list-style-type: none"> ■ Obtain a copy of the purchasing policy and discuss purchasing procedures with procurement personnel. Does the organization have an explicit supplier diversity program? ■ Review a list of the most frequently used vendors to determine the extent to which minority business enterprises, women business enterprises, and veteran or disabled business enterprises are used.

Employee Relations: The organization creates a work environment in which all board members, employees, shareholders, and contractors interact with fairness, integrity, and respect, and in which they can operate to their full potential. The organization's work environment encourages each person to act responsibly, both individually and collectively, toward a common vision.

Employment Standards:

The organization complies with applicable legislation regarding employees, in such areas as benefits, health and safety, and working hours.

- Discuss with management and human resources personnel how the organization determines compensation packages and ensures compliance with all applicable labor laws.
- Obtain management representation and attorney's letter(s) concerning the nature of any employee suits that have been adjudicated or are pending.
- Review any communications with OSHA or other regulatory agencies to determine the number of safety violations or accidents that have occurred within the last year. Compare this number to prior years and to the average number for the industry. Gain an understanding of how the organization reports such incidents. Determine if the organization has taken necessary procedures to rectify any potentially hazardous situation.
- Ensure that the organization communicates its benefit packages and health and safety risks through a review of the policy and procedures manual and discussion with employees.

Workers' Compensation:

The organization ensures that its employees are covered under Workers' Compensation programs in its particular jurisdictions.

- Review the Workers' Compensation policy and premium payments, as necessary.

Performance Review:

The organization offers each employee and contract worker a performance and contract review at least annually. This process should provide the employee and contract worker with an opportunity to review management and the company as well.

- Discuss evaluation procedures with human resources personnel and employees, including an understanding of how evaluations are considered in promotions and compensation and the procedures for upward feedback or 360° performance management.

Compensation:

The organization outlines its payment and bonus policies for all departments and levels in the organization. The policy is available for all employees to review.

- Obtain the compensation policy and discuss with human resources personnel.
- Does the organization regularly review compensation levels to ensure they are in-line with the industry and geographic location?
- Does compensation include social recognition as well as financial rewards?
- Interview employees to gauge their understanding of the policy.

Profit Sharing:

The organization provides opportunities to share in the growth and profitability of

- Discuss current or potential employee incentive compensation plans with management, human resources, and Board members.

<p>the firm through such initiatives as bonus packages, profit sharing, share ownership plans or stock option arrangements (if applicable).</p>	<ul style="list-style-type: none"> ■ Interview employees to gauge their understanding of the policy.
<p>Disbursements: The organization ensures fair and prompt payment to all employees and contractors for their services.</p>	<ul style="list-style-type: none"> ■ Document our understanding of the disbursement cycle, specifically the controls in place which ensure proper payment. ■ Review accounts payable aging and compare the dates and amounts on issued checks with respective invoices, as necessary. ■ Interview employees and vendors to determine if fair and prompt payments are made and how disputes are settled.
<p>Employee Empowerment: The organization creates clearly defined opportunities for management/staff communication and feedback, in all departments and at all levels within the organization.</p>	<ul style="list-style-type: none"> ■ Discuss communication channels with management, human resources personnel, and employees. ■ Discuss with management and employees procedures in place to keep employees informed of the organization's activities. ■ Determine the extent to which future plans are shared with employees. ■ Determine if the organization has a formal grievance policy which is communicated to all employees. What is the process for conflict resolution?
<p>Employee Suggestions: The organization provides an effective vehicle for employees to advance ideas and suggestions for change. The company has a clearly defined mechanism in place to ensure a response. It rewards employee suggestions that provide significant advantages to the business.</p>	<ul style="list-style-type: none"> ■ Discuss with management, human resources personnel, and employees the organization's methods to encourage employee creativity. ■ Review procedures for employees to provide input. ■ Determine how employees are rewarded for valuable ideas and outstanding work. ■ If employee input has been provided, review management's response.
<p>Openness in the Work Place: The organization provides a work environment that allows for freedom of association.</p>	<ul style="list-style-type: none"> ■ Review the employee policies and procedures manual and discuss with management and employees.
<p>Employee Growth: The organization offers clear and documented guidelines for employee development and advancement within the organization. The incentives for advancement are explicit and non-discriminatory. The company supports professional and personal development through internal training programs, financial-assistance, or flexible work hours for programs outside of the organization.</p>	<ul style="list-style-type: none"> ■ Review development and advancement guidelines and discuss with human resources personnel and employees. ■ Are development opportunities available at all levels? ■ Are employees informed about the impact of technology on their jobs and what actions they can take to prepare? ■ Does a peer counseling or mentor program exist? ■ Determine the number of promotions from within versus external hires; compare to prior years and note trends.

<p>Employee Benefits: The organization has a written policy explicitly defining employee benefits. These benefits may include education, training, health care, childcare, and elder care, among others.</p>	<ul style="list-style-type: none"> ▪ Review the policy and document benefits included in compensation (i.e., life insurance, tuition reimbursement, benefits to same sex partners, etc.).
<p>Employee Termination: The organization has a written policy regarding termination, which is available to all employees for review.</p>	<ul style="list-style-type: none"> ▪ Obtain the termination policy and discuss procedures with management. ▪ Review turnover statistics; compare to prior years and note trends. ▪ Review the payroll tax return to determine the unemployment compensation rating and record.
<p>Terminations: The organization follows applicable labor laws when terminating an employee.</p>	<ul style="list-style-type: none"> ▪ Determine if the organization has a policy of giving employees a reasonable time to improve before being terminated. ▪ Review procedures to determine how severance packages are calculated.
<p>Downsizing (if applicable): The organization investigates and, when appropriate, acts on alternatives to downsizing and layoffs.</p>	<ul style="list-style-type: none"> ▪ Was disclosure made completely and within a reasonable time period in accordance with the Worker Adjustment and Retraining Notification (WARN) Act? ▪ Did the organization attempt to relocate the employees to other positions within the organization or help find new employment? ▪ If the organization has closed facilities or has experienced downsizing, review the process used to inform employees and the community of the layoffs.
<p>Flexible Work Hours: The organization provides a variety of programs to help its employees balance work and family responsibilities. These policies may include flexible working hours, job sharing, parental/family leave policies, and telecommuting options.</p>	<ul style="list-style-type: none"> ▪ Document the availability of such programs through discussions with human resources personnel and employees.

KH can conduct social responsibility audits in accordance with generally accepted standards established by the American Institute of Certified Public Accountants and Corporate Social Responsibility (CSR) guidelines, including but not limited to the United Nations Compact and the CERES Principles, among others. Our social responsibility audits enable us to express an opinion on an organization's written CSR assertions intended for third-party readership. Our reports typically outline recommendations for improving governance and accountability systems. Our broad objective is to translate the results of the social responsibility audit into recommendations that will have maximum benefit to the organization in its overall management practices.

WHY HIRE KH?

In these dynamic times, boards, corporate executives, educational leaders, elected officials, and public sector administrators retain KH because of their need to:

- Bring about change from within
- Accomplish specific initiatives despite internal time pressures and staff constraints
- Remain or become a regional, state, national, or international leader in their industry or market (and potentially to counter competitive actions that might erode their current market position)
- Acquire special expertise and tools
- Solicit a fresh perspective, as well as independence, objectivity, and discretion
- Bypass both “politics” and natural resistance to examination and change, particularly in environments with diverse agendas
- Solicit external, professional opinions without the risk of prejudice (i.e., internal managers may be defensive when their operations are under review)
- Obtain insights into “best practices” and “lessons learned” at other comparable companies and organizations
- Have nothing taken for granted, including data that might otherwise be overlooked or unused (e.g., consultants can ask “dumb questions” such as “why are you doing that task that way?”)
- Leverage respected external authorities before their boards or executive team

Additional descriptions of KH firm capabilities, including a general KH firm brochure, are available upon request.

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