

STANDARDS AND AUDITING PROCEDURES TO ENHANCE CORPORATE ACCOUNTABILITY

Globalisation and increased scope of corporate influence have been two key drivers behind the proliferation of economic, political, social, ethical, and environmental standards over the past two decades. As legislators and media focus attention on business concerns, such as ethnic conflict, child slavery, child labour, environmental pollution, human rights, and military dictatorships, etc. stakeholders (e.g. governments, shareholders, consumers, employees, and society) have placed significant pressure on companies to adopt standards and monitoring mechanisms that enhance company accountability.

The pressure, delivered through consumer boycotts, shareholder resolutions, increased legislation, and negative stories in the popular press, often places the company's most precious asset – its reputation – in jeopardy. In response to such pressure, many companies have been compelled to re-evaluate their business strategies and practices by addressing issues such as human rights, worker health and safety, fair trade and the environment. Companies in nearly all industries have reacted by adopting codes of ethical conduct and internal compliance monitoring.

Beyond internal monitoring, there is a growing realization in the global corporate community that significant stakeholders are demanding accurate and timely information on a company's social and ethical performance. As the call for corporate "transparency" continues, we believe that third party assessment and assurance of a company's social and ethical performance will play an increasingly important role in building trust and credibility among different and competing stakeholder groups.

Similar to the financial reporting and the "independent" auditing processes, third party assurance on social and ethical performance will become an important mechanism for assessing the accuracy of management's disclosure, prioritization of stakeholder information needs, and reliability of the underlying reporting infrastructure. Furthermore, the process for

reporting on social and ethical performance will require companies to expand upon accounting and management information systems to better reflect control and compliance process that foster adherence to codes of conduct and related corporate social responsibility issues.

The growing demand for objective, third party social and ethical assurance is reflected by the effort of many non-profit organizations to standardise criteria and auditing procedures for measuring and reporting upon social and ethical performance of businesses. For example, The Council on Economic Priorities has developed SA8000, a standard for ethical sourcing world-wide. The audit focuses on a company's supply chain issues regarding labour, wages, compensation, and discriminatory practices as well as other labour and human rights issues. Under SA8000, factories that apply for certification must receive an independent audit by a qualified firm.

Other not-for-profit organizations are developing initiatives to standardize environmental and social reporting. For example, the mission of the Global Reporting Initiative (GRI), sponsored by the Coalition for Environmentally Responsible Economies (CERES), is to create a framework for standardised reporting on sustainability of corporate environmental policies and practices.

Significant value can be added to initiatives such as those mentioned above through an assessment of internal compliance processes. This should be based on well-defined benchmarks or key performance indicators that objectify a company's performance within defined and agreed components of effective compliance. These performance indicators include:

- Corporate policies – codes of conduct, mission statements, policies;
- Training and awareness programs – desktop learning, classroom lecture, case studies;
- Upstream and downstream communications – hotline, newsletter,

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- Process management – compensation, benefits, incentive plans; and
- Monitoring mechanisms – evaluation, surveys, disciplinary measures.

Organisations that assess ethical performance should also consider several guiding questions including:

- Do key elements of the company's social and ethical function exist?
- Do the processes provide adequate coverage with respect to all stakeholders?
- Do the processes have a mechanism for measuring continuous improvement?

The benefits of third party assurance to companies and stakeholders are clear. These assurances help to define the extent to which organizations adhere to well-defined standards. Public disclosure can help an organization to demonstrate proactive stakeholder management by enabling it to focus its resources on the most vulnerable areas and mitigate future violations and problems. In addition, this system helps corporations to build creditability. This, in effect, enhances trustworthiness and reputation of the entity within the stakeholder community.

To achieve the above benefits, however, it is imperative that companies have the tools to measure and evaluate the effectiveness of their ethics and social accountability processes within the context of their significant stakeholders. One way to measure ethics and accountability as a "process" is to utilize self-assessment and continuous improvement methodologies developed from the total quality paradigm.


According to a recent study of CEO's commissioned by the Foundation for Malcolm Baldrige National Quality, 50% of those surveyed believe that they and their peers need to improve the ability to work well with different stakeholders. Assurances on corporate ethics programs and

social accountability will become increasingly important as shareholders, customers and future employees base their investment, purchasing, and employment decision on companies who demonstrate higher degrees of accountability, transparency, and trustworthiness. ■

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