A COMPLEX PERSPECTIVE OF SOCIAL AUDIT IN CORPORATE GOVERNANCE

Mihaela, Dumitrascu¹, Ileana Ciutacu² and Iulian, Savulescu³

1 Accounting Department, Academy of Economic Studies, Bucharest, Romania, red_mille_ro@yahoo.com
2 Economics Department, Academy of Economic Studies, Bucharest, Romania, ileana.ciutacu@gmail.com
3 Accounting Department, Academy of Economic Studies, Bucharest, Romania, savulescuiulian@yahoo.com

ABSTRACT: The social audit is interconnected with the corporate governance and contributes to the increase of the trust and transparency between stakeholders. Social audit aims to analyze social factors and how an organization can contribute to the improvement of its activity. Also it involves analyzing the environment in which the organization operates and how it can help to maintain or even improve it. The contribution of this paper is focused on a qualitative research on social practices within NGOs and banking institutions. There is a limited number of studies in this sense in the literature, because is quite difficult to exist a homogeneous image of a domain rather heterogeneous. The present study follows to build an image, accompanied by examples of socially responsible practices. We realized a list with the issues related to social responsibility, with specific examples to argument this aspect.

Key words: social audit, corporate governance, NGO, banks, social responsibility

1. INTRODUCTION

A social audit is that activity which can improve the companies’ social performance. It helps to measure, verify, understand and improve the companies’ social performance. The social audit is interconnected with the corporate governance and contributes to the increase of the trust and transparency between stakeholders. Social audit aims to analyze social factors and how an organization can contribute to the improvement of its activity. Also it involves analyzing the environment in which the organization operates and how it can help to maintain or even improve it.

The social audit takes into account the social-environmental impact through the resources that the organization uses. There are a lot of arguments for or against corporate social responsibility [9, 10]. We can look at costs and benefits regarding corporate social responsibility [11, 12] like increase performance of the employees or other long term benefits.

Thus, the entire world is a complex adaptive system which is formed out of parts which are complex adaptive systems of their own. These parts have a similar structure to the whole and as well as the whole initial complex adaptive system, are formed out of smaller complex adaptive systems of their own. So the world, be it seen from a social, political, economic etcetera, point of view is a fractal in which every iteration or new layer of the fractal is a brand new complex adaptive system that is in the same time a part of a bigger complex adaptive system. We used two terms that some of the readers of this paper might not know, so first of all we should explain what a fractal and a complex adaptive system are.

What is a fractal? [1] A fractal is a “mathematical set that has a fractal dimension that usually exceeds its topological dimension and may fall between the integers, meaning that for example its dimension can be 1.79 instead of 1 or 2. The fractal dimension is also known as the houderoff-besicovitch dimension, after the names of the scientists that developed this measurement methodology. Fractals are typically self-similar patterns, where self-similar means they are ‘the same from near as from far’, thus, they may be exactly the same at every scale or they may be nearly the same at different scales. The definition of fractal goes beyond self-similarity per se to exclude trivial self-similarity and include the idea of a detailed pattern repeating itself.” A repetition of that particular detailed pattern that renews itself over and over thus creating a fractal pattern repeating itself.” A repetition of that particular detailed pattern that renews itself over and over thus creating a fractal pattern repeating itself.”

2. THE CORPORATE GOVERNANCE AND SOCIAL AUDIT, A COMPLEX ADAPTIVE SYSTEM

Believe it or not, all the parts of this world are interconnected one with another and can't be separated without losing important features, characteristics, behaviours etc. Thus, for a better understanding of the subjects developed we should look at them both from the inside, as observe them from the outside using all the appropriate methodologies and measuring systems humankind invented until now. This perspective comes from complexity science, a new approach of explaining the environment outside every human being, that sees the world and its elements as a fractal which is iterated (an interaction means repeating the same rule over and over again) with complex adaptive systems.

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are of interest to human kind are complex systems and for a few of these complexity models were developed. These systems include ant colonies, human economies and social structures, the climate, nervous systems, cells and other living things including human beings, as well as modern energy or telecommunication infrastructures. Complex systems are studied by many areas of mathematics, social science and natural science, while the fields that specialize in the interdisciplinary study of complex systems include cybernetics, systems ecology, systems theory and complexity theory.”

A special type of complex systems are complex adaptive systems or for short CAS. These types of systems are complex because they are diverse and made up of multiple interconnected elements, and they are adaptive because they have the capacity to change and learn from experience. “Examples of complex adaptive systems include the stock market, social insect and ant colonies, the biosphere and the ecosystem, the brain and the immune system, the cell and the developing embryo, manufacturing businesses and any human social group-based endeavour in a cultural and social system such as political parties or communities. This includes some large-scale online systems, such as collaborative tagging or social bookmarking systems” [2]

Because now we understand what CASs are, we can talk a bit about social audit, corporate social responsibility and corporate governance. In today's world, the great majority of firms, enterprises, corporations and organizations produce goods or different services with the sole main goal of obtaining big profits of money. This is an unfortunate objective because a company's having a big profit doesn't necessarily mean that also society or the environment profits from it and that the people, animals and plants are happy and/or healthy. Even if not accepted as scientific, this reality was too big for economists not to notice, so they gave it a name and theorized it in economics as negative externalities. There also exist positive externalities, and this occur for example when a person eats more citric or gets an anti flu vaccine in the cold season and because of this 75% of the people he/she gets in contact with every day don't get the flu in that season. And because negative externalities must be cured in a way or another by the firms producing them, a new field appeared in economics and this is corporate governance. This field sets the rules by which every firm should compete with other firms, produce its goods, acquire its resources (labour, prime materials, know-how, technologies etc.), obtain its profits. Thus, the firms can be observed easier by the stockholders (shareholders, government, financial institutions, social institutions, population etc.) and negative externalities can be diminished. Unfortunately, even after the firms have “passed” through corporate governance there are still lots of cases where firms produce great amounts of money profit, but with equal amounts of negative externalities. Therefore, humankind and its economists have created another field as a cure for this: corporate social responsibility. This field means that all the firms should be responsible towards society and diminish the negative externalities they produce by doing this with impact on the social, natural, political or economical environment which bring some balance to all these CASs.

Some elements of social activity are analyzed from the perspective of financial audit as to reduce the risk of material misstatement due to non-compliance of environmental norms. Accountant is required to investigate these issues relating to social audit. Such organizations in sectors like petroleum, construction, production and processing of raw materials are at high risk of environmental pollution. Information should be compared with those from previous years to determine a trend and a potential risk in the activity. Social auditor should formulate specific recommendations for improving the quality of human resource management. Social auditor can also be achieved through service by an external auditor. Organizational structure is located between management and shareholders or between management and other departments. The audit plan is made after the auditor has discussed with management and social work departments impact on the entity. In determining the audit plan should be established for the audit period, the number of people with adequate knowledge and participating in the audit departments where they will perform audit tests. Purpose of social audit is to issue a report on internal social audit recommendations. Before issuing internal audit office report discussing with management to analyze which recommendations can be improved before issuing the report.

3. METHODOLOGY

The contribution of this paper is focused on a qualitative research on social practices within NGOs and banking institutions. There is a limited number of studies in this sense in the literature, because is quite difficult to exist a homogeneous image of a domain rather heterogeneous. The present study follows to build an image, accompanied by examples of socially responsible practices We realized a list with the issues related to social responsibility, with specific examples to argument this aspect. Were analyzed, the Corporate Social Responsibility Reports and other relevant information from their sites.

4. RESEARCH

The Corporate Governance Code of the Bucharest Stock Exchange on Art 9 specifies about Corporate Social Responsibility. Companies should encourage financial activities that create wealth, jobs and sustainability. The listed companies must show concern for nature and for environment. They will also pay more attention to employees, employee representatives, unions and other types of entities such as lenders, consumers, investors in implementing corporate social responsibility practices. Institutions listed on the Bucharest Stock Exchange are required to include in its annual report a section entitled Corporate Social Responsibility. The activities supported by companies listed on the BSE include: funding of governmental organizations on supporting education, tourism, sport, rehabilitation of disaster areas, ecological areas, about helping people with disabilities, art and more

Usually corporate social responsibility is saved for the firms, enterprises, corporations and multinational firms because these organizations are those that in their search for profit produce negative externalities. But these are not the only organizations that try to balance and even cure the negative externalities that humankind produces within its environments, because this is the same purpose that most of the nongovernmental organizations (NGOs) have. NGOs can be specialized on social, environmental, cultural, political, economical issues, and by their actions balance on short, medium or even long term the negative externalities that different firms, the economy and society has on society and the environment. NGOs can be formed out of just a few persons, like in the case of the NGOs formed at local or regional level, up to a few thousands persons, like in the case of “multinational” NGOs like UNESCO or UNICEF are. According to The World Association of Nongovernmental Organizations (WANGO) website, in this moment there are over 52,000 NGOs in the
One first example of how these NGOs try to balance the CASs that we live in Romania are the magazine “About us”, edited by Agenţia Împreună and Unicef Romania, a magazine in which a few gypsies that were able to leave behind the bad image romanes people have and do something big with their lives, tell their stories [5]. By this approach Unicef and Agenţia Împreună hope to inspire other gypsies to change their lives to something that will bring positive externalities to society. Another example that of the project “We are the product of the environment”, developed by the EU and the Development Division of the United Nations. By this project, the organizations developing it hope to make the population aware that all the persons that get in jails for different reasons (theft, crime, illegalities etc.) arrive in that point because of the social environment they live in. So, if the social environment of these persons society calls “criminals” changes when they are young, their future and that of the communities they live in can change. [6] Another very good example is that of the SOS Children’s Villages NGO, that tries to help families stay united and if they don’t, it tries to help the children from those families be reintegrated into society. According to them, the results they have in changing the future of these children are good. In Romania there about 1,000 children that benefit from the work of this international NGO [7].

These three examples are just a few all the NGOs that work in Romania and succeed to change a bit of the negative externalities that affect society. Of course, there are also NGOs that work for the environment like Greenpeace, for the acceptance of different ways of living one's life like Accept, or for the liberty of information and mass-media like Transparency International. The list doesn’t end here.

Corporate social responsibility policies of the banks involvement in community projects requires both an own format, and partnerships with NGOs, which are running projects according to the bank's values, especially on long term. Also, the banks involved in projects that involve teamwork and encourages volunteerism among its employees. Banks give attention to social causes in the following areas: economical, environmental, social, education, citizenship, culture, sport, human rights. The last corporate social responsibility published budget varies between 100000 Euros - 2000000 Euros

Since 2010, banks have gathered all the information about its corporate social responsibility projects and reports on a dedicated website. The website allows all stakeholders to find in one place the information that interests them, and get involved in the bank's shares, or enter into dialogue with it. Internally, the banks have implemented an integrated program of recycling for paper, pet, cardboard, glass, lamps, metal and printer cartridges. In the first operations using recycled paper products and energy efficient light bulbs. Bank computers are automatically closed outside office hours, using a special application. In addition, the headquarters of some banks are hosted by buildings which are certified organic. The banks also encourage its customers to use banking individuals in an environmentally responsible manner, choosing iStatement (electronic statement) and iBanking (Internet Banking). Last but not least, the Bank staff is involved in training programs and awareness of sustainable development, enabling them to participate in training sessions, presentations, discussions or online courses.

Advantages of social audit: encourage the local community participation, helps the disadvantaged groups, increase the transparency, Develops human resources, promotes social responsibility and promotes sustainability.

The organizations have proposed to more accurately measure the impact their projects have on (non)-financial activity. Consequently, the banks published the corporate social responsibility reports, or an assessment of community involvement projects. In the future, the bank's representatives have proposed to improve their reporting so that it is consistent with most widely used model in this area, namely the model GRI (Global Reporting Initiative).

5. CONCLUSIONS

The main idea of this paper is that firms should be more aware of the fact that they and the people that own and work in them aren't separated off the environment in which they develop their activity. Thus, all their actions have positive or negative effects on the entire environment or environments (economic, politic, social, natural etc.) these firms get in touch with, and like this also on them. This happens because the world we live in is like a network of complex adaptive systems that are interconnected and that fortunately or unfortunately work also after the “butterfly effect”. The “butterfly effect” is the metaphor that E. Lorenz used in his 1972 lecture from Washington to explain the sensitivity of a system to the initial conditions, and to be more exact that the flap of a butterfly's wings in Brazil could be the cause of a tornado in Texas or of bad weather in Europe [8].

Social auditor has a responsibility to ensure that projects within (s)he participated were viable, the documentation was well done and also to pursue social activities in time to see the results delivered. Within the organization is much easier to track social responsibility. Although social responsibility has no experience in Romania we can say that these activities can brings added value to business.

Once again, the research conducted highlights the importance of the social audit in corporate governance, seeing that the activity of a company impacts positive or negative the world we live in.. So, is our choice what way we go, but we must bear in mind that the resources are limited and we must focus also on medium and long term perspectives, and we refer here to social, environmental activities, not only on profit.

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7. REFERENCES (HEADING 1)

3. World Association of Nongovernmental Organizations website


