

How could CSR lead to a better management?

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Abstract: The purpose of this study consists in highlighting the role and responsibilities of the internal audit function and how corporate responsibility is approached by two of the top private companies in Romania. Firstly, we analysed the corporate governance codes of these economic entities and how corporate social responsibility and internal audit function are applied and which are their roles. We made a comparative research by analysing how these institutions have implemented the regulation and recommendations given by the prudential surveillance authority in their organizations and we emphasized some gaps or needs of improvement. We drew up some lines that IIA recommends to being followed for touching the scope of internal audit. The limitation of this research comes from analysing only some indicators to be compared between these two companies. The value of this paper resides in identifying the areas in need of improvement in order to be in compliance with the requirements.

Keywords: corporate social responsibility; internal audit; annual report; governance code.

JEL Classification: M420, M400, M14

1 Introduction

Corporate Social Responsibility has become with the time very important for every company and is mandatory in reporting for public companies worldwide. As Daykin (2006) prepared for IIA, social reporting includes non-financial information available to public in the annual report or a special separate report.

Chih et al., (2010) remarked too that CSR of an enterprise also refers to respecting commitments towards employees, internal and external stakeholders, and living and respecting the community, proving that society and people are respected.

Private companies that adopted the corporate responsibility rules are also respecting the reporting conditions.

The annual report is an elementary condition for each listed company and we can say that more and more enterprises are conforming to reporting. It's extremely important to determine their approach concerning information disclosure and the measure within they report.

According to IIA "The internal audit activity is established by the Board of Directors, Audit Committee, or highest level of the governing body".

Internal audit function objective is to ameliorate each process, results and reduce the risks. As Daykin (2006) explains, for the IIA research Foundation, the internal audit uses four methods for improving corporate governance in companies:

- Establish and convey the values, goals and communicating them to auditors so they can point the risks to management.

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- Monitoring the goals - internal auditor will control the fulfilment targets, procedures deployment and will identify the possible risks.
- Internal auditors will also validate the fairness of results and will communicate to management and in the annual report or specific responsibility report.
- Uphold the standards - is made by respecting the other three methods.

For a more sustainable development, the Global Reporting Initiative (2013) has set the ways to be followed in reporting, on the economic, environmental, social and governance fields. The framework of this non-profit organization about reporting guidelines, sector guidance leads to organizational transparency and accountability.

We started by analysing the codes of corporate governance of two of the best private companies in Romania and how they apply the internal audit function and corporate social responsibility and which are their roles.

We made a comparative research by analysing how these institutions have implemented the regulation and recommendations given by the prudential surveillance authority in their organizations and we emphasized some gaps or needs of improvement. Meanwhile we drew up some lines that IIA recommends to being followed for touching the scope of internal audit.

The limitation of this research comes from analysing only some indicators to be compared between these two companies.

2. Study Case, Comparative Analysis on the Corporate Governance in PETROM and GSK

We chose for our analysis two of the largest private companies in Romania. First one is Petrom, Romanian company, and GlaxoSmithKline Romanian division.

Both companies have a strong corporate governance and transparent reporting but each has its own perspective.

Petrom is one of the first private companies, non-financial that respects the Corporate Governance code of the Bucharest Stock Exchange and reports in transparent way financial and non-financial information, such as sustainability report.

In terms of sustainability, starting 2012, the Petrom Group adopted the concept of “Resourcefulness”, meaning touching “profitable growth in a sustainable and responsible manner” (Petrom Group, 2012). They concentrate on three lines: eco-efficiency, eco-innovation and skills to succeed.

The eco-efficiency refers to better carbon and water management, reducing sludge and water waste. Eco-innovation supports replacing normal fossil fuels with alternative energy, biofuels.

The skills to succeed, the third line of sustainable management refers to shareholders and community, as Petrom is involved in projects supporting employees development, educational projects in energy and entrepreneurship.

On the other hand, as we may understand from the Group’s annual report, GSK is part of an international Group and they have clearly defined the corporate governance, risk management and internal control, by defining clear accountabilities and responsibilities with the aim of adding value for shareholders and realizing the company’s strategy.

The group adopted responsible behavior regarding environmental impacts on transportation and logistics, by reducing emissions, efficient driving. Also they are voluntarily involved in helping the community to reduce domestic energy consumption. Meanwhile all energy, emissions, waste and

water are carefully monitored and managed in an efficient way, significantly reducing their footprint compared with latest years (Glaxo Smith Kline, 2012a; Glaxo Smith Kline, 2012b).

What we can notice about GSK is that they are adopting in Romania division the Group's Sustainability Reporting Framework and the Global Reporting Initiative, which becomes valuable to the company and is quantifiable.

From the Operating structure point of view, in OMV PETROM we talk about the Executive Board is formed by 5 members elected by the Supervisory Board, as long as in GSK we have 4 divisions, with 4 different entities, 4 Board of Directors and are composed by 2 directors for the first division and 3 directors for each of the other 3 divisions.

Petrom decided to comply with good corporate governance, the Supervisory and the Executive Boards working in harmony for the weal of the company and in the interest of the employees and shareholders (Petrom Group, 2012; Glaxo Smith Kline, 2012a; Glaxo Smith Kline, 2012b).

Meanwhile, Petrom considers a priority the health safety and security and adopted measures to reduce risks at work and develop a secure working environment. Also, they promote diversity of human resources, valuing the people and adopted a Code of Business Ethics, so everybody would behave responsible, ethical, in a transparent way that would lead to a good reputation.

As well as Metaxas (2012) highlighted, enterprises should operate in an ethical manner, reducing pollution, governments should support and request for responsible governance and like the society will also benefit from the clean environment.

3. Conclusions

Nowadays the companies in Romania are starting to align on the international trend, being subject to audit and respecting the requirements on the social responsibility as part of the annual reporting.

As Nold III (2012) proved in his research, knowledge management is linked with firm's performance; also the social corporate responsibility is linked with effective management of the organization.

Using the annual reports, managing the company in a social responsible way, respecting the nature and the community, following the practice guides provided by the IIA, all these will conduct to successful management in harmony with internal auditors' job (The Institute of Internal Auditors, 2009).

Depends on every company how they implement the corporate responsibility rules, but it is obvious that good practice leads to higher performance, development and sustained growth. Meanwhile the image of the company is improved both from employees' point of view, as from external stakeholders.

Management of every firm should grant the adequate use of resources and control all the activities in order to detect and prevent fraud by offering a special attention to the internal audit function.

There is still a long way to go until Corporate Social Responsibility will be part of every private company in Romania especially that there is no regulation for non-financial entities to respect in this regard.

As in every field exists leaders and followers, the companies that will adopt sooner the measures for responsible governance will also raise their position in society, will improve their image and will show gratitude for the environment and for the community they live in and with this kind of management will be closer to high performance in business compared with the companies that will not choose to do it.

Through this kind of behavior, as Meena (2012) notified, not only the community will benefit of the results but also the companies by delivering profitability.

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