

HOW CORPORATES ARE ACCOUNTABLE TO THE MARKET

Accountability is defined by Business Dictionary as the “*The obligation of an individual or organization to account for its activities, accept responsibility for them, and to disclose the results in a transparent manner. It also includes the responsibility for money or other entrusted property*”.

Merriam-Webster defines **Accountability** as “*the quality or state of being accountable; especially: an obligation or willingness to accept responsibility or to account for one's actions <public officials lacking accountability>*”.

As per Wikipedia **Accountability** is a concept in ethics and governance with several meanings. It is often used synonymously with such concepts as responsibility, answerability, blameworthiness, liability, and other terms associated with the expectation of account-giving.

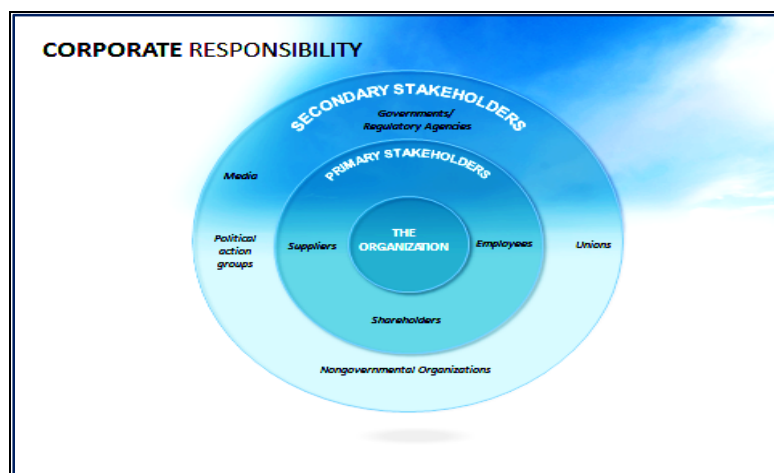
As an aspect of governance, it has been central to discussions related to problems in the public sector, nonprofit and private (corporate) worlds.

In leadership roles, accountability is the acknowledgment and assumption of responsibility for actions ,products, decisions, and policies including the administration, governance, and implementation within the scope of the role or employment position and encompassing the obligation to report, explain and be answerable for resulting consequences.

Accountability cannot exist without proper accounting practices; in other words, an absence of accounting means an absence of accountability

Accountability in Global Corporations

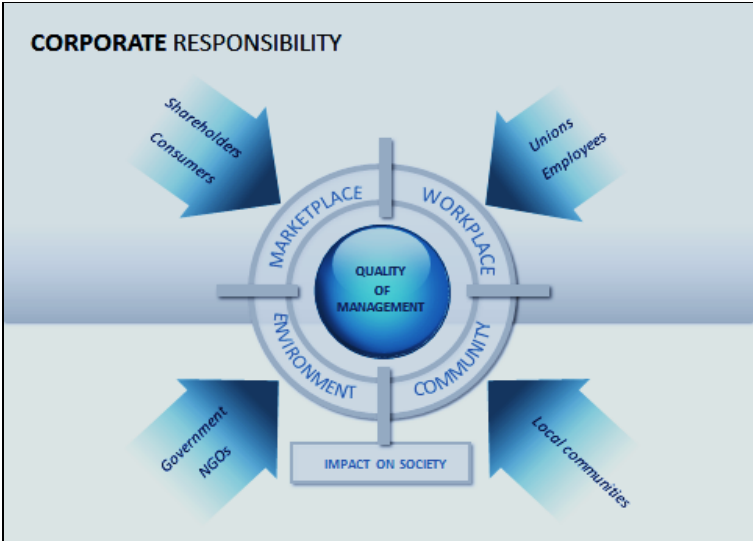
Accountability and Responsibility are directly linked with each other in the current Global environment and all Corporations face constant and persistent pressure from all stakeholders



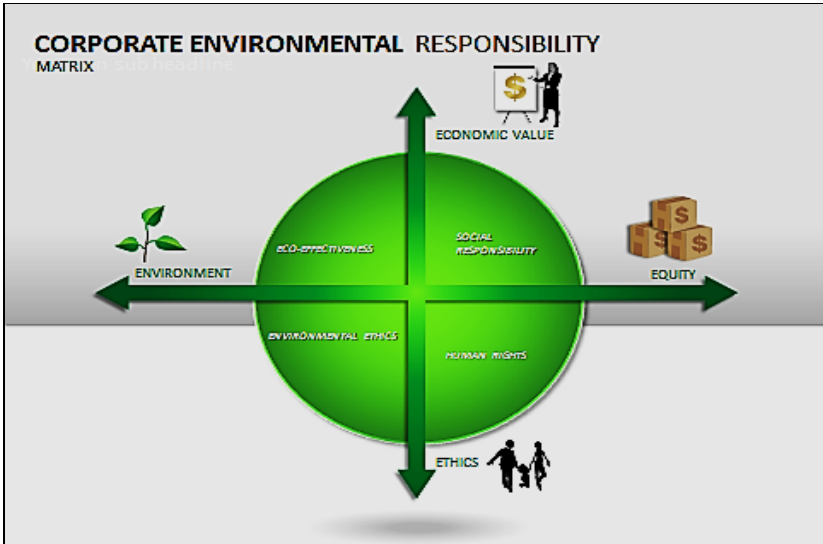
Global conditions since 2008 have forced Corporations to have a hard look at the existing operations and determine how to continuously improve and incorporate concepts of Corporate Kaizen. One of the aspects of a business that can make or break its continued existence is Accountability. The accountability of any business starts at the corporate level and works its way down to the level of individual employees.

Each aspect of the company, from the worker on the line to the manager of the department to the CEO has to be accountable for his or her contribution to the business, whether that contribution is a positive one or a negative one. Accountability has to do with many things including the ethics, the performance and the projected future of each department as well as the company an entity.

Corporate Accountability is the base for an ethical business culture although there are challenges of sustainable corporate performance and the directors have to act and be responsible for not only maximizing shareholder's returns , but also be accountable for the consequences of their actions to the community and society they operate in .



All the stakeholders – internal or external like public at large have a right to know if their interests are being looked after and protected by corporations. CSR activities are a measure for global corporations to reassure the society at large that environmental and social responsibilities are being looked after as an integral part of the socio-economic hub.



Corporate Social Responsibility

The term 'Corporate Social Responsibility' refers to the social responsibility that a Company must honor towards the public, especially those people who have direct contact with and are therefore directly affected by the policies and actions of the company. The feeling that the social responsibility of multinational companies are not of such standards that would satisfy the general public has led to widespread protests and demonstrations against these companies at almost every free-trade meeting at the regional and national as well as the multi-national levels. The protests are also generally against worldwide globalization. Almost all major multinational companies are found lacking in their responsibilities towards the public. It is not at all sufficient for a company to satisfy its shareholders and investors and employees and the community in which they function from; in fact, these companies are expected to be aware of and take an active part in human rights issues, community development, environmental protection, and so on. The performance and success of the company is judged by these parameters, in addition to its financial performance.

Some of the major accusations that have been leveled against multinational corporations are these: some corporations take over land that is ecologically unsafe or sacred to the locals of that state to build their companies, by using political influence, tax evasions and insider selling and frauds within the company, unethical experimentation, and targeting of the young for most addictive products like cigarettes and drugs, as well as the attempts to save costs by moving their factories to developing countries where young laborers are often forced to work under debilitating circumstances and polluted environments, are a few more accusations leveled against multinationals. The monopoly on the export of drugs enjoyed by multinational pharmaceutical companies has actually led to the increasing costs of drugs needed by the world to fight against the dreaded HIV and AIDS virus; the fact is that the costs for such vital drugs would be reduced by about 95% if this monopoly were to be banished. In the same way, the monopoly that the media enjoys actually reduces and controls information.

Corporate / Executive Standards and Ethics

During the last decades Corporate Ethics and Ethical behavior has become an important part of corporate culture in Global MNC's and several studies have been conducted regarding the importance of ethics in business at the corporate and executive level. One such study was published by Harvard University's Graduate School of Business, written by Lynn Sharp Paine and explored the need for managing an organization's integrity. Paine believes that managers often think ethics are a question of personal scruples that is confidential between them and their conscious. Often times the corporations or companies refuse to accept responsibility according to Paine for things the employees do wrong. If an employee acts unethically he or she is a rogue employee and it is not representative of the company itself nor should the company be held accountable according to some business current standards. Corporations or executives are sometimes so concerned with liability that they fail to accept even reasonable responsibility.

“Ethics, after all, has nothing to do with management. In fact, ethics has everything to do with management”. Rarely do the character flaws of a lone actor fully explain corporate misconduct. More typically, unethical business practice involves the tacit, if not explicit, cooperation of others and reflects the values, attitudes, beliefs, language, and behavioral patterns that define an organization’s operating culture. Managers who fail to provide proper leadership and to institute systems that facilitate ethical conduct share responsibility with those who conceive, execute, and knowingly benefit from corporate misdeeds.

“Managers must acknowledge their role in shaping organizational ethics and seize this opportunity to create a climate that can strengthen the relationships and reputations on which their companies' success depends. Executives who ignore ethics run the risk of personal and corporate liability in today's increasingly tough legal environment”.

According to Paine the act of accountability begins at the top with the executives taking integrity based approach to running the company. It is important for the top management workers to recognize this means a combining of the recognition of legal responsibility and the need for individual ethical behavior from each employee of the firm.

Using the example of Sears, Roebuck & Company, Paine details the way a corporate failure to accept accountability can lead to a drop in customer base which leads to a loss of profits. The complaints were filed in 1992 regarding the company’s automotive repair business. “Consumers and attorneys general in more than 40 states had accused the company of misleading customers and selling them unnecessary parts and services, from brake jobs to front-end alignments. It would be a mistake, however, to see this situation exclusively in terms of any one individual's moral failings. Nor did management set out to defraud Sears’s customers. Instead, a number of organizational factors contributed to the problematic sales practices.

Management Accountability

The question of accountability at the management level becomes a bit more complicated. At the executive level many of the accountability factors are more theory than application. While the corporation bears some responsibility for the actions of its workers, it is the managers who deal daily with them who are usually held accountable. The management accountability factor often plays the level above the manager and the level below the manager against each other, leaving the manager trying to explain. Accountability then becomes something that must be documented. Performance documentation allows for the measurement of performance which in turn can be used to set policy and ethical mandates (Why Measure Performance?

This lends itself to use for accountability standards at the management level being determined. Accountability can be encouraged at the management level through the use of rewards and benefits. While accountability outside of the workplace is usually moralistically driven the business world often uses incentives to encourage its management level workers to maintain ethics and accountability standards.

The development and use of performance information has to be strategic and occur as an integral part of an agency's integrated management, budgeting, monitoring, reporting and decision making processes (The four elements of performance information)

Individual Workers & Accountability

The accountability of individual workers can be problematic. Often times workers have individualized ideas about what is and isn't acceptable work behavior and performance. In addition many lower level workers are not viewing the job as a long-term commitment. Therefore, the effort to perform ethically may not be what it should be at times. Individual employees often see the management as the enemy and may even work to sabotage accountability in their management's realm of responsibility. To encourage the acceptance of accountability at the individual level management as well as the corporation can use incentives. Accepting responsibility and agreeing to be held accountable for performance on the job is an important step to career growth. Experts believe communication is another crucial element.

A recent research study was performed and it concluded that individuals through performance demonstrate their commitment to the company. The study further believes that managers who agree to be accountable for their employees can detect which employees are committed to the company and which ones are simply performing the job at hand. Individual accountability according to experts is more prevalent with workers who plan their careers with their companies.

SA 8000 – Corporate Social Accountability Standard

SA8000 is a global social accountability standard for decent working conditions, developed and overseen by Social Accountability International (SAI). In May 2009 it was verified by SAAS Accreditation that over 1.3 million workers are employed in SA8000 Certified Facilities around the world.

SA8000 is an auditable certification standard based on the **UN Universal Declaration of Human Rights** Convention on the Rights of the Child and various **International Labor Organization (ILO)** conventions. SA8000 covers the following areas of accountability:

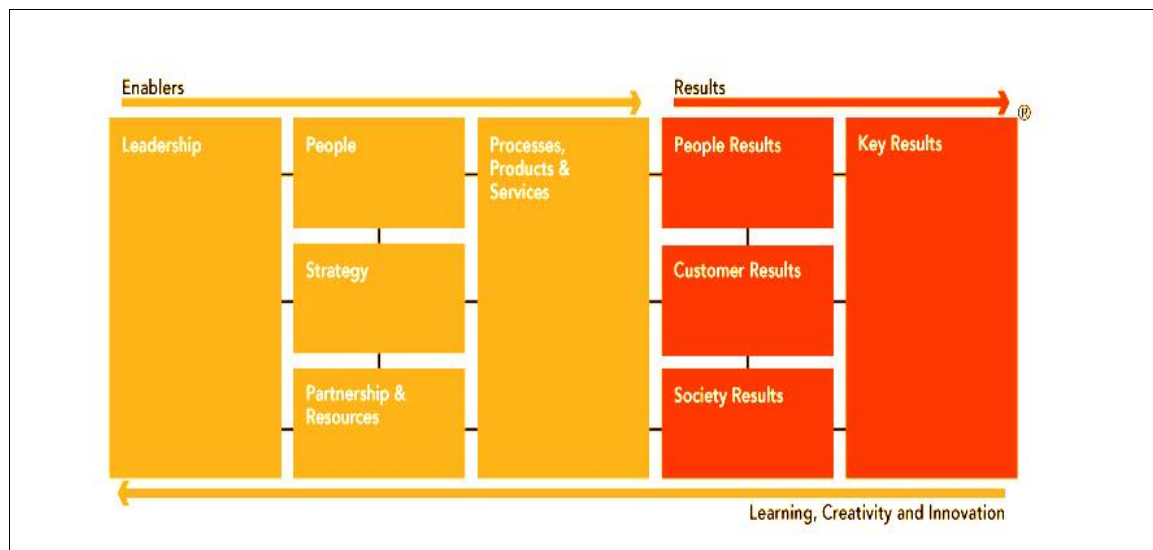
- Child labor: No workers under the age of 15; minimum lowered to 14 for countries operating under the ILO Convention 138 developing-country exception; remediation of any child found to be working.
- Forced labor: No forced labor, including prison or debt bondage labor; no lodging of deposits or identity papers by employers or outside recruiters.
- Health and Safety: Provide a safe and healthy work environment; take steps to prevent injuries; regular health and safety worker training; system to detect threats to health and safety; access to bathrooms and potable water.
- Freedom of Association and Right to Collective Bargaining: Respect the right to form and join trade unions and bargain collectively; where law prohibits these freedoms, facilitate parallel means of association and bargaining.

- Discrimination: No discrimination based on race, caste, origin, religion, disability, gender, sexual orientation, union or political affiliation, or age; no sexual harassment.
- Discipline: No corporal punishment, mental or physical coercion or verbal abuse
- Working hours: Comply with the applicable law but, in any event, no more than 48 hours per week with at least one day off for every seven day period; voluntary overtime paid at a premium rate and not to exceed 12 hours per week on a regular basis; overtime may be mandatory if part of a collective bargaining agreement.
- Compensation: Wages paid for a standard work week must meet the legal and industry standards and be sufficient to meet the basic need of workers and their families; no disciplinary deductions.
- Management systems for Human Resources: Facilities seeking to gain and maintain certification must go beyond simple compliance to integrate the standard into their management systems and practices.

Accountability – A self-Assessment with EFQM / Malcolm Baldrige / Golden Peacock Award Models

Progressive organizations all over the world have realized the need to improve the corporate performance and accountability towards stakeholders – society, people, customers, shareholders by a self-assessment and critical examination of their capabilities as laid down in Global Business Excellence Standards like:

European Foundation of Quality Management (EFQM)



The **Malcolm Baldrige National Quality Award (MBNQA)** is presented annually by the President of the United States to organizations that demonstrate quality and performance excellence and is given in various industrial categories and ensures Accountability for all stakeholders:

Baldrige Criteria for Performance Excellence:

1. **Leadership:** How upper management leads the organization, and how the organization leads within the community.
2. **Strategic planning:** How the organization establishes and plans to implement strategic directions.
3. **Customer and market focus:** How the organization builds and maintains strong, lasting relationships with customers.
4. **Measurement, analysis, and knowledge management:** How the organization uses data to support key processes and manage performance.
5. **Human resource focus:** How the organization empowers and involves its workforce.
6. **Process management:** How the organization designs, manages and improves key processes.
7. **Business/organizational performance results:** How the organization performs in terms of customer satisfaction, finances, human resources, supplier and partner performance, operations, governance and social responsibility, and how the organization compares to its competitors.

Golden Peacock Awards are issued by **Institute of Directors** and covers various aspects of enables and results for all stakeholders in the organization.

Conclusion

Accountability is common to all corporations – MNC's or National, Government or Private, Profit or Non Profit NGO's. Society at large including people and government have a major stake in the corporation's operating and environmental policies. Prudent corporations are making accountability an important part of the corporate policies to be able to contribute the maximum to Society and Community.

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