AN EVOLUTIONARY APPROACH OF CORPORATE SOCIAL RESPONSIBILITY REPORTING

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Business reporting trends in the last decades have put in the front line the importance of non-financial disclosure and the growing needs of the potential shareholders that expect any company in which they invest to meet certain minimum standards in terms of governance and disclosure.
The paper describes the evolution of social responsibility reporting at international, regional and national level.

Key word: social responsibility, corporate reporting, voluntary disclosure

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Introduction

The later trends in business reporting have put in the front line the importance of non-financial disclosure and the growing needs of the potential shareholders that expect any company in which they invest to meet certain minimum standards in terms of governance and disclosure.
In this evolving international context, where the mandatory disclosure of financial information is completed with voluntary disclosure of financial and non-financial information, as well, the aim of the present paper is to explore the extent of social responsibility reporting within the annual reports of Romanian listed companies. To achieve this goal we carried out a thorough investigation of the Romanian companies listed on Bucharest Stock Exchange (BSE) and data from all the these entities have been collected.
The main contribution of this article consists in the study of the sustainability reporting in a country where this concept has known a poor development till recent years and companies that have embraced it were in a pioneering phase in their reporting policy. First of all, it tries to give an insight look of Romanian theoretical background on corporate social responsibility and shapes several key issues regarding sustainability development. Secondly, this study intends to bring an explanatory contribution to the development of social responsibility by building a research design based on several disclosed items concerning CSR practices for Romanian listed companies. The study is divided in two parts. The first part consists of two sections and presents the theoretical background for the corporate sustainability and social responsibility concepts, the basic theories and the reporting framework at international, regional and national level for sustainability. The second part represents the empirical study based on the analytical investigation of the extent of social responsibility reporting within the annual reports of Romanian listed companies. In the end of the paper it can be found the concluding remarks and directions for further research.
For the purpose of this paper we will limit the theoretical background only to those issues related with “corporate sustainability”(CS) and corporate disclosure theories.
Corporate sustainability sets out the company’s performance areas and strategies focused on environmental protection, social justice and equity and economical development. The *Corporate Social Responsibility* is a concept defined before the one of SD. Bowen (Bowen, 1953 cited in

Carroll 1999) assumes that companies should have obligations, should follow lines of action compatible with the "values of society" and McGuire (1963) stated that economic and legal duties of companies should be extended to some society responsibilities. Later, Carroll (1979 and 2004) presented the four components of social responsibility: economic, legal, ethical and discretionary or philanthropic. In his vision these are expectations that society has of a company and that companies have to decide which of them to focus on.

Accountability Theory. Accountability is is a concept in ethics with several meanings. Regarding corporate governance it means the legal or ethical responsibility to provide an account or reckoning of the actions for which one is held responsible. Often accountability is used as a synonym for responsibility but in corporate terms they have different meanings. Accountability differs from responsibility in that the latter refers to one's duty to act in a certain way, whereas accountability refers to one's duty to explain, justify, or report on his or her actions. The contribution of corporate accountability theory to corporate sustainability is that it helps define the nature of the relationship between corporate managers and the rest of society. It also sets out the arguments as to why companies should report on their environmental, social, and economic performance, not just financial performance.

In the later 90's CSR became an organizational imperative concept to address known as the "triple bottom line" (Elkington, 1998) of "people, planet, profit" and different oragnisations started to issue models and guidelines for CSR reporting. Even so, there are authors that have a complete different view about CSR (Friedman, 1962, 1970; Handy, 2002; Martin, 2002; Kooskora, 2006). They considered that "there is one and only one social responsibility of business - to use its resources and engage in activities to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud". Thus, they subscribe to the shareholder theory.

We may observe that the two opponent theories: "shareholder's theory" and "stakeholders' theory" may influence companies in their decisions and behavior regarding social responsibility.

In the classical theory, the only role of businesses in society is profit making, focusing on the profit of the shareholders. On the other side, the stakeholder theory, states that companies have also a social responsibility that requires them to consider the interests of all parties affected by their actions. Corporate sustainability borrows elements from both SD and CSR concepts. Sustainable development (Wilson, 2003) sets out the performance areas that companies should focus on, and also contributes to the vision and societal goals that the corporation should work toward, namely economic development, environmental protection, social justice and equity. Corporate sustainability and CSR are distinct, but interacting concepts that are usefully formalized in terms of capital-theoretic and welfare-economic approaches (Hediger, 2008).

The early `90s have brought in corporate reporting a new trend of sustainability reporting. The new concept has been adopted especially by the MNC's. These companies had reorganized their disclosure policy and near by financial information they started to disclose information regarding their economic, environment and social performance. The disclosure of CSR information is based on the stakeholders'behavior and the disclosure theories that we will present briefly in the following section.

Theoretical background regarding disclosure

The modern stakeholders needs for information are more sophisticated, they ask for more information than the one provided by the financial statements. Nowadays, these stakeholders are valuing the company not only by financial numbers but also by its non financial and strategic performance. The annual reports are now seen as the primary source of corporate information disclosure. Additionally to mandatory information annual reports may also provide voluntary information, so annual reports have became important sources for communicating companies' financial and non-financial information. The efficiency of disclosure process is dependent upon the needs of the stakeholders and of the interests of the management of the corporation. (Debreceny, Gray, Mock, 2001). In order to understand better the need for voluntary disclosure of information of all types we have looked upon the main important economic based theories: agency and signalling theory and thoroughly studied them. We have found that *agency theory* is frequently used in the literature to analyze the determinants of accounting choices. As Jensen and Meckling (1976) noticed agency theory argues that there is an avoidable monitoring cost for shareholders, paid to prevent expected expropriations by management.. Managers lack incentive to maximize companies' value since their wealth is not affected by the maximization of the companies' value. Financial statements in opinion of Prabowo and Angkoso (2006) are one main device to reduce the agency problem, although there are other mechanisms such as efficient market for corporate control, governmental regulation, and efficient job market for managers and managerial stock ownership program. By forcing managers to prepare standardized financial statements, shareholders can monitor and control the managers' action with the proxy of company's financial performance. There exist growing requirements for managers to not only disclose financial information by financial statements, but also non-financial information such as history of share price. As Healy and Palepu (2001) and Botosan and Plumlee (2002) considered it is expected that by disclosing additional, not mandated information, managers and owners can actually reduce agency costs.

Signalling theory exists before investors put their money into certain companies. Akerlof (1970) sees information asymmetry as a „lemons" problem that arises when a person wants to buy a used car. Disclosing more financial and non-financial information to potential investors can reduce the information problem.

Corporate Social Responsibility: Global, European and national reporting frameworks

The „corporate social responsability" topic have involved and challenged different international, regional and national organisations in a process of standard making together with thousands of companies that report information about. Because the non-financial reporting has known a fast growing, in 1997 the Global Reporting Initiative was developed by the Coalition for Environmentally Responsible Economies and the Tellus Institute through a joint project. Supported also by the United Nations Environment Programme, the GRI promotes the international harmonization of reporting "of relevant and credible corporate environmental, social and economic performance information to enhance responsible decision-making." The GRI have developed and disseminate a globally harmonized reporting framework for so called sustainability reporting, or non-financial reporting (NFR). In 2006, after a development process involving thousands of stakeholders worldwide GRI released the third iteration of its Sustainability Reporting Guidelines (G3 Guidelines). The newest development of GRI is the request address to governments through the Amsterdam Declaration on Transparency and Reporting from March 2009.

European regulations. Starting with 2001, European Union has created an European framework for CSR. The document is known as European Commission Green Paper on "Promoting an European Framework for Corporate Social Responsibility". The aims of this document were, firstly, to launch a debate about the concept of corporate social responsibility and, secondly, to identify how to build a partnership for the development of a European framework for the promotion of CSR. The Green paper also defined CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis", as they are increasingly aware that responsible behavior leads to sustainable business success. In 2002, the Commission issued a Communication on "Corporate Social Responsibility: A business contribution to Sustainable Development", presenting a strategy to promote CSR across the Union. Following the recommendations outlined in the above-mentioned document, an EU Multi-Stakeholder Forum on CSR (CSR Forum) was set up. It brought together representatives of business, trade unions and civil society. The Forum succeeded in reaching a consensus among participants, but it also revealed significant differences of opinions between business and non-business stakeholders. In 2006, the Commission issued a Communication on “Making Europe a Pole of Excellence on Corporate Social Responsibility” suggesting the creation of certain coalitions for CSR.

Social and environmental reporting is made by companies mainly on a voluntary basis. However, this is starting to change. Some Western European countries have endorse a regulation for CSR reporting. Denmark introduced a law on mandatory "Green Accounts" for large companies in 1995. Since 1999 in Nederlands companies have legal obligations to report CSR information. France followed in February 2002 with a legal act that obliges listed companies to include social and environmental evaluations in their annual reports. Norway, Sweeden, UK and Germany have also some requirments for reporting brief information about environment, social and sustainability aspects in the companies annual reports. In Central and Eastern European countries there is no mandatory requirement to publish environment or sustainability reports. Also, there is still no EU wide approach to social and environmental reporting. The Commission's Communication on Corporate Social Responsibility states that in this initital phase, reporting should remain as flexible as possible. However, the Commission recognises that a greater consensus on the type of information that should be included on social reporting might be needed in the future to allow for meaningful benchmarking.

Between Western and Central Eastern European countries still remain important differences regarding the social responsibility concept. On the one side, in the Western Europe both governments and companies are active in the field but, on the other side in CEE countries most of them emerging economies, CSR and sustainable development are concepts almost new. In the CEE countries a dynamic process of social and economic change was occurring, primarily through the process of European integration.

The National Corporate Responsibility Index (NCRI) is the world’s first attempt to measure the state of corporate responsibility across 80 countries, drawing on available data on key factors including levels of corruption, business adoption of environmental management and the state of corporate governance. It also examines the extent to which there is an enabling national environment for corporate responsibility to emerge and develop. While Western Europe (in particular Nordic states) was the best performer in this Index, with seven countries amongst the ten most responsible ones, this is not true for the CEE region. The ranking shows that Eastern Europe can be roughly divided into two regions. The first one comprises countries that have joined the European Union in 2004, such as Estonia or Slovenia, which are performing relatively well. The other group including Bulgaria, Romania and the Balkan countries, still face serious problems in that respect, meaning that business practices are not yet aligned with corporate responsibility.

CSR in Romania. Recently the topic of CSR is also emerging in Romania; the dominant opinion is that CSR initiatives represent only an indicator of excellence in management. Besides the multinational companies only a small part of the highly profitable companies have the available resources to become socially involved. In Romania, as in many transition countries this was primarily the result of multinationals introducing ethical business principles. Even though the standard CSR terminology and language is not universally understood in Romania, issues such as health and safety, fair working conditions, environmental protection and community engagement are common public concerns. The basic instruments of CSR such as: values statements, codes of conducts or ethics, social responsibility reporting, auditing and certification are rather hard to find in Romanian enterprises, only the Romanian subsidiaries of large multinationals are using them. For the moment CSR works rather as another public relations tool for companies and the concept has slowly spread among Romanian companies.

On the other side, the Romanian Government shows interest for the problem of social responsibility and the legislation in the field of environment, employment, restructuring of local authorities was permanently improved. But, there are still many claims coming especially from the civil society and also from the business sector for improving legislation and taxation in order to support institutions for actions of social responsibility.

The most important certification body in the country is the Romanian Society for Quality Assurance (SRAC). SRAC is a professional non-profit association and independent NGO, focusing on third party certification of management systems, in compliance with national and international standards. It aims at promoting a quality culture through information sharing, training and management systems certification. SRAC is the first Romanian body accredited for environmental management systems (ISO 14001) and occupational health and safety management systems (OHSAS 18001), and forms part of the International Certification Network (IQNet), the most important international group of certification bodies and the largest provider of Management System Certification services. Social Responsibility Reporting in Romania has no framework and presently is not yet regulated at national level. Reporting is a necessity if companies are to know and understand their social and environmental impacts, and how to minimize the dangers and maximize the opportunities associated with new and emerging challenges. Those companies that disclose information regarding this topic have to follow the European and international guidelines.

Conclusions and directions for future research

It is worth mentioning that one of the features of domestic companies that are operating in the ex-communist countries is that shareholders and employees are considered the main stakeholders; the other stakeholders like government and local communities are considered having less interest. This suggests that Romanian companies are focusing mainly on the internal aspects of their operations, referring to everything that is directly linked to their bottom line and employee welfare. The fact that external stakeholders are considered far less important could be explained by the tradition of limited empowerment of the civil society in general, which do not exert considerable influence on private sector activities. In addition, the declining role of government as a result of the privatization process and market liberalization has contributed to such development. In Western European countries, companies due to the pressure from stakeholders and the desire to avoid public scandals started producing social and environmental reports. Voluntary disclosure has become part of the operational culture of many companies all over the world – a trend, which is also evident to some extend among leading enterprises in Romania (Popa, Farcane and Pop, 2008).

The basic instruments of CSR such as: values statements, codes of conducts or ethics, social responsibility reporting, auditing and certification are rather hard to find in Romanian companies. The findings suggest that the triple bottom line concept exists, but it is not very advanced in BSE listed companies. In order to achieve further improvement, government have to make social and environmental reporting mandatory and raise awareness by providing clear reporting guidelines in the field. Our survey of the companies listed on BSE actively traded showed that disclosure of CSR information does not generally belong to the strengths of Romanian companies at the present. However, we found companies whose CSR related information provision and disclosures considerably exceeded the average.

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