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Corporate social responsibility reporting - necessity or fashion

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***Abstract*— The current legislation, rules and procedures for reporting data referring to the situation of enterprises do not provide full information necessary to make decisions. This study attempts to present corporate social responsibility reports as an element reducing the so-called gap in value between the book value and market value of enterprises. The benefits and threats resulting from reporting social attitudes and their impact on the perception of the company by stakeholders are also presented.**

Index Terms: corporate social responsibility, non-financial data, business reporting.

I. INTRODUCTION

Corporate information systems accumulate, process, produce and report information which is measurable, unmeasurable, economic, non-economic etc. The information is gathered for the management purposes and used in the decision making by internal and external stakeholders. However, in order to provide stakeholders with the full picture it is vital to go beyond the information required under generally applicable law, as this information comes out from the system of financial accounting and does not include the most important elements of a company's goodwill. The aim of the paper is to present the benefits offered by reporting corporate social responsibility and proving that CSR in the knowledge and information based economy is necessary for improvement of credibility of traditional financial reports. The paper presents findings of literature research on non-financial data in corporate information systems.

II. NON-FINANCIAL INFORMATION AS A COMPLEMENT TO THE VALUE GAP

Changing economic conditions, globalization processes and transition to the information era have generated higher demand on the part of stakeholders for different kinds of information which is not included in the traditional financial reporting. Moreover, the considerable divergence between the book (balance) value, market value and the economic value of organizations leads to the so called 'valuation gap' (Figure 1), therefore the value factors of organizations should be sought both in the material and in immaterial sphere.

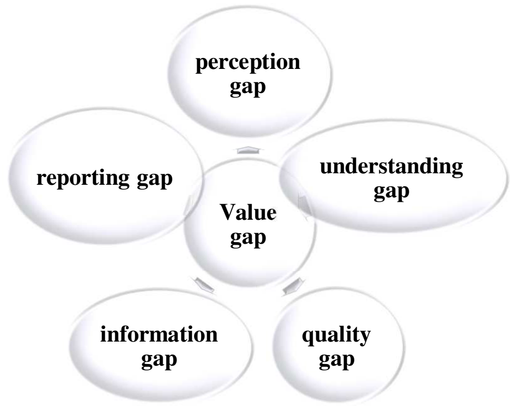

FIGURE 1. BASIC ELEMENTS OF VALUE GAP IN CONTEMPORARY ORGANIZATIONS

Source: (Sroka, Grzymisławski and Kustra, 2013)

The valuation gap is the result of many years of inappropriate perception of assets constituting the value of organizations (mainly immaterial elements which are not included in the traditional system of financial reporting) as well as different perspectives of looking on particular value creating areas by internal and external stakeholders. The elements which make the value gap are presented in Table 1.

Non-financial information is a term which has not yet been precisely defined in the subject literature. Therefore, it may be understood as all information disclosed by an organization, information which is not expressed qualitatively (or the way of its evaluation is not generally acceptable) and constitutes a decision making basis for internal and external stakeholders. Moreover, the said information impacts the following spheres: evaluation of stability, pace of growth, forecasted future profits and organizational risk assessment.

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TABLE 1. ELEMENTS WHICH MAKE THE VALUE GAP

Perception gap	Divergences between the perception of board members with respect to their external reporting activity and actual accuracy of the reporting as perceived by analysts and investors.
Understanding gap	Divergences between the weight managers attach to a given area of value creation, and its perception by analysts and investors, what as the result triggers the necessity to introduce completely different evaluation ratios.
Quality gap	Divergences between the weight attached to a given area, and the accuracy of its internal audit.
Information gap	Divergences between the validity of received data and the way of its presentation in reporting for value purposes.
Reporting gap	Divergences between the weight attached by the decision makers to a given value area, and their efforts towards its appropriate presentation in reporting, satisfaction of information needs of all stakeholders.

Source: Own work based on (Sroka, Grzymisławski and Kustra, 2013)

The most important non-financial (and at the same time intangible) factors considerably impacting a company's goodwill include:

- the position of the organization on the market,
- the relations with stakeholders,
- the style of leadership and management,
- impact on the natural environment,
- the ability to implement strategies,
- image (prestige, brand, reputation),
- innovativeness,
- intellectual capital (human capital, structural capital, organizational capital, social capital),
- knowledge resources other than know-how,
- quality of goods and services,
- public relations and media relations,
- customers relations management,
- research and development,
- internal and external communication.

In order to assure that accounting fulfills its main objective i.e. provision of reliable and credible information on the organization, it seems necessary to introduce changes in traditional reporting and to encourage gradual transition from financial to business reporting. Differences between financial and business reporting are presented in Figure 2.

The necessity to introduce changes in traditional reporting, which is based on historic data and only includes the tangible elements, gave rise to Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

The adoption of the above mentioned Directive is the next step towards transparency of reporting by public companies.

FIGURE 1. DIFFERENCES IN FINANCIAL AND BUSINESS REPORTING

FINANCIAL REPORTING	**BUSINESS REPORTING**
Ownership orientation	Stakeholders orientation
Limited availability	Wide availability
Bottomline	Value creation
Grounds: legal regulations	Grounds: market requirements (lobbing)
Financial data	Wide spectrum of results
Data coming from outside	Different sources of information
Historic cost	Market value
Audit of accounts and reports	Attestation of the whole reporting system
Periodic reporting	Continuous reporting
Standardized information	Personalized information
Local orientation	Global orientation
Static system	Constantly changing model
Distribution of information	Dialogue
Paper form	Electronic form

Source: Own work based on (Marcinkowska, 2004).

Pursuant to the provisions of the Directive companies as of 2017 are obliged to report vital information with respect to:

- environment,
- social and workers issues,
- respect for human rights,
- counteracting corruption and bribery.

Provisions of Directive 2014/95/UE are binding for companies which meet two of the three conditions indicated below:

- annual average employment above 500 persons,
- balance sheet total above 85 million EUR or
- net income above 170 million EUR.

It is estimated that in the EU area the provisions are binding for about 6,000 entities, whereas in Poland the obligation of disclosure of non-financial data refers to about 200 companies.

While disclosing non-financial information, the entities under the Directive can rely on national framework regulations, EU framework regulations such as EcoManagement and Audit Scheme (EMAS – the EU scheme which allows all types of organizations to improve their environmental performance and achieve recognition for doing so), or on international framework regulations such as the UN Global Compact, guidelines of the UN on business and human rights which implement the UN framework 'Protect, Respect and Remedy', guidelines of the Organization of Economic Co-operation and Development (OECD) for multinational organizations, the guidance on social responsibility ISO 26000, the tripartite declaration of the International Labor Organization (ILO) on multinational organizations and social policy, the Global Reporting Initiative (GRI) or other acclaimed international frameworks and guiding principles.

In the light of the aforementioned considerations it can be assumed that profit is no longer the sole objective of business entities, the new focus embraces also the possibility of impacting the local community, spreading education and undertaking different forms of social cooperation.

III. UNDERSTANDING SOCIAL BUSINESS RESPONSIBILITY

The term 'social responsibility' came into common use in the 1970s, although its history goes back to the nineteenth century.

This concept in the initial phase focused mainly on business, hence it is widely used as ‘corporate social responsibility’ (CSR). In the initial understanding it referred to philanthropic activities and only with the passage of time and the increase of social awareness in the field of responsibility for the contribution to sustainable development, was this concept extended to such issues as: work, fair operating practices, human rights, the environment, consumer protection, counteracting embezzlement and corruption. An overview of contemporary definitions of Corporate Social Responsibility is presented in Table 2.

TABLE 2
CURRENT CSR DEFINITIONS

Author	CSR Definition
M. Blanke, N. Grynia-Pfeffe	[…]it is a concept according to which enterprises at the stage of strategy building voluntarily take into account social interests and environmental protection, as well as relations with various stakeholder groups (Blanke M., Grynia-Pfeffe. N, 2008);
J. Adamczyk	[…] it is the responsibility for the commitments accepted by the company as a result of its social coexistence. This kind of responsibility arises as a result of the social will that businesses operate in a certain way. Enterprises are created in order to pursue the interests of owners production factors, that is why they depend on the moral evaluation of their activities by interested entities (Adamczyk, J. 2009);
J. Nakonieczna	[…] the moral responsibility of the company and the obligation to account for the public from its activities; especially before internal groups – owners, employees and external groups - shareholders and clients, local authorities, pressure groups, ecological movements, consumers and suppliers as well as cooperators and state administration (Nakonieczna J. 2008);
S. Young	[…] this is a strategic and long-term approach based on the principles of social dialogue, transparent relationships and the search for solutions that are beneficial for everyone; achieving long-term profit while wisely shaping relationships with all stakeholders, including: employees, clients, suppliers, shareholders, competitors and the local community, also conducting business in such a way as to take into account ethical values, law, respect for employees, society and the natural environment, contribute to sustainable development through cooperation with them, so as to improve the quality of life of all (Young S. 2005);
K. Davis	[…] it begins where the influence of the law ends (Davis, K. 1973);
J.A. Pearce, R.B. Robinson	[…] it is the organization's obligation to benefit society by applying methods that exceed the basic business goal of maximizing profits (Pearce J.A., Robinson R.B. 1989);
the European Commission	[…] it is a concept according to which companies voluntarily implement strategies that take into account social interests and environmental protection as well as relations with stakeholders. Being socially responsible means meeting not only obligations laid down in law, but far more - greater investments in human capital, the environment and relations with stakeholders;
the United Nations Development Program	[…] approach to management and response to social, economic, environmental and ethical issues, response to the expectations of stakeholders with respect to the aforementioned issues to the extent to which business is allowed to respond;
the Responsible Management Forum	[…] an effective management strategy which by conducting social dialogue at the local level, contributes to the growth of enterprises' competitiveness at the global level and, at the same time, creates favorable conditions for social and economic development;
A. Paliwoda-Matiolańska	[…] a process of managing relations with stakeholders of an enterprise which, by responding to their identifiable expectations, contributes to the growth of its competitiveness, ensuring its stability and sustainable development, at the same time creates favorable conditions for economic and social development, creating both social and economic value (Paliwoda-Matiolańska A, 2012);

Source: Own work

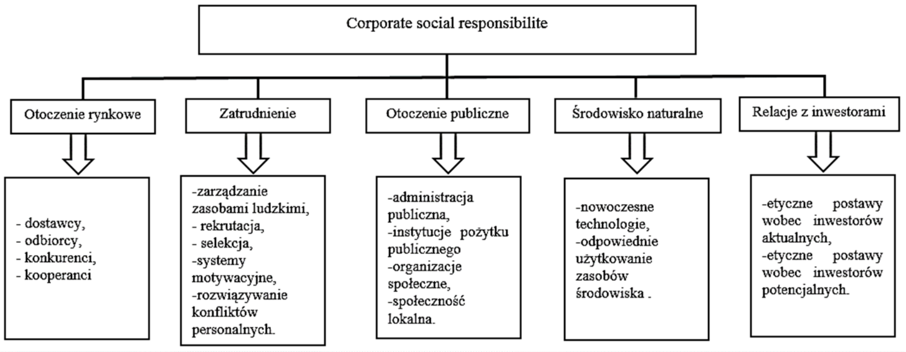
Taking into account all definitions quoted above it can be ascertained that corporate social responsibility is a process of effective business conduct based on making decisions that are consistent with the expectations of both internal and external stakeholders, and the decisions taken on the board level contribute to multiplication of own profits (while maintaining care for increased competitiveness, stability and adequate protection of own interests) and assure economic, social and ecological well-being of external stakeholders while upholding ethical standards and principles.

Within definitional framework related to corporate social responsibility, five basic areas of economic activity can be distinguished, Figure 3.

The expression of social responsibility in the area of market environment embraces the application of ethical principles in contacts between the organization and the world outside, the use of honest information, advertising and implementation of appropriate rules in privatization, mergers and acquisitions. CSR in the area of employment includes human resources management and compliance with the principle of employee subjectivity, principles of social justice, chances for personal development, guarantee of stability of employment and occupational health and safety. In the area of public environment, social responsibility is implemented through projects for science, education, culture, sport and health protection as well as public-private partnership, sponsorship, patronage or, for example, employee volunteering. In the area of natural environment, CSR means proper management of natural resources as well as proper valuation of using these resources and compliance with environmental regulations. With respect to investors relations, the CSR includes provision of reliable and complete information about the unit in all possible cross-sections.

Concluding the above considerations, it should be stated that under corporate social responsibility all organizations operating on the market are not only supposed to respect the applicable legal regulations, but also take into account commitments which are not legally binding, but result from universally recognized ethical principles and values.

FIGURE 3. CSR AREAS IN ACTIVITY OF ECONOMIC ENTITIES

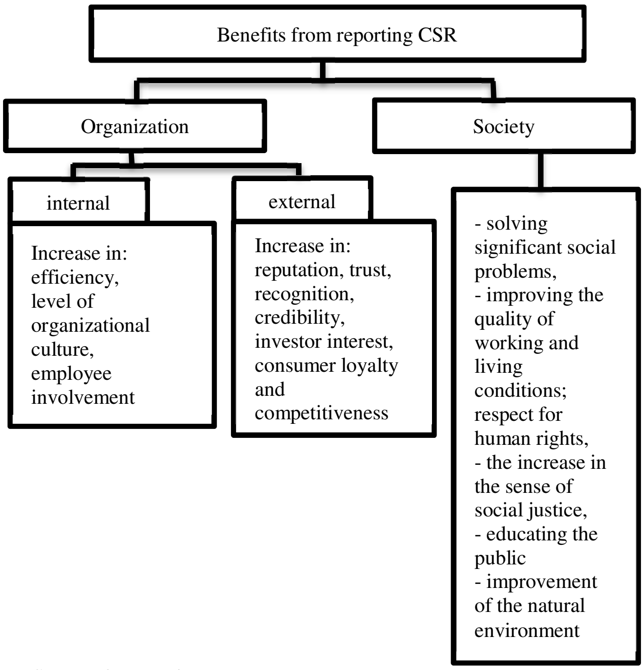


Source: own study based on (Bartkowiak, 2011, p. 26).

IV. BENEFITS AND THREATS RELATED TO CSR REPORTING

Reporting on corporate social responsibility can produce both positive and negative effects for economic organizations. The CSR system creates opportunities for development and rise in value, but on the other hand it also carries many threats. The distribution of benefits resulting from reporting social responsibility in the context of stakeholders is presented in the figure below.

FIGURE 4. GENERAL BENEFITS RESULTING FROM CSR REPORTING



Source: Own study

Companies applying CSR in their reporting activities can be appreciated by:

- raising the level of organizational culture by raising the standards of behavior towards its stakeholders, both internal (employees) and external (clients, contractors), which may limit incurring of the so-called 'bad relationships'. The organizational culture of each organization should be based on trust, transparency and responsibility for the interests of all parties to the proceedings;
- employees - thanks to ethical codes, social programs, the care for the environment etc., the company's image is improved in the eyes of its workforce. Taking into account the aspects of corporate social responsibility results in better reception of the company by current and future employees, higher efficiency and greater loyalty of staff. The increased attractiveness of the company helps to attract new and retain the best employees. In highly developed countries, the employer's social responsibility is an important motivational component (on top of remuneration and promotion). It is important for socially responsible organizations to have a transparent remuneration system, to provide education opportunities and continuous development for employees, to offer non-financial benefits (e.g. health care) and to allow for a sense of shared responsibility for the organization;
- immediate environment and relations with local authorities - a positive contribution to the society can be perceived as a long-term investment in a safer place of living, better educated citizens, higher standards of living which at the same time brings benefits to the company in the form of a favorable and stable environment to conduct business;
- building a positive image of the company through CSR strengthens the company's position on the labor market, facilitates cooperation with business partners, state administration and local government authorities. By applying the CSR principles, the company positively perpetuates the citizens' awareness, gains recognition of local authorities, which in turn may facilitate access to public funds;
- attracting investors - socially and ethically responsible functioning of an organization and its members builds trust and contributes to the creation of an environment in which financial development initiatives can be undertaken. Taking into account relevant non-

financial information about the enterprise, investors may contribute to a more efficient allocation of capital and faster achievement of objectives in the long-term perspective. For many investors, the company's financial credibility is closely linked to its social credibility. Creditors are more willing to grant loans to companies that not only show positive financial results, but also enjoy a positive social image. Research conducted by KPMG showed that over 45% users of CSR reports make investment decisions based on these reports. Increased attractiveness in accessing capital is also reflected in the creation of new stock indices for socially responsible enterprises (e.g. RESPECT Index functioning on the Warsaw Stock Exchange which aims to select companies managed in a responsible and sustainable manner, but also strongly emphasizes the investment attractiveness of companies which is characterized by the quality of reporting, the level of investor relations or information governance);

- strengthening reputation and image - it is a company-specific assessment referring to various groups of stakeholders; this assessment comes from the direct experience of stakeholders, is the result of other forms of communication and/or their comparison with competitors. Reputation is one of the non-financial elements of intangible assets of the company which entails customer loyalty, helps to attract better employees, stimulates productivity and efficiency and affects positively the profitability of the business and thus goodwill. Nowadays, consumers are very aware of their choices of goods and services and are often guided by reputation and image of the brand and trust in the company. Reputation management is the responsibility of the managerial staff, it provides high-quality solidity, trust, credibility, integrity and accountability to stakeholders. In modern times price and quality are not the only factors that are taken into account, the company's reputation and what is associated with it is also very important.
- sensitivity to the needs of the environment - determines the company's ability to understand and react in an innovative way to market trends, new challenges and changing needs of stakeholders. Sensitivity is a way to build reputation and competitive advantage, and affects the dedication of stakeholders. More and more consumers pay attention to the ‘ecological’ nature of a product or service, it is important for them whether a given product or service adheres to the principles of social responsibility in the process of its production. In addition, keeping local communities informed about the organization's efforts towards improvement of its positive impact on the society and the environment generates greater support from local organizations. An enterprise that takes into account the opinion of local communities during the implementation of projects and activities can count on the support of both individuals and local authorities.
- competition - implementing the principles of responsible business is one of the advantages thanks to which companies gain a competitive advantage. CSR policy applied in an enterprise in a transparent way may be one of the ways to build its position on global markets, where expectations regarding the standards of responsible business are even more important. The disclosure of the application of best practices in the economic, social and natural sphere has a positive impact on the competitive advantage and the value of the organization.
- eco-efficiency or reduction of resource consumption - reduction of pollutant emissions may cause a reduction in operating costs related to the business. In addition, the creation of social responsibility reports in this area makes it necessary to evaluate the company in terms of its impact on the natural environment. Such evaluation helps to detect any weaknesses in the company’s pro-ecological activities and introduce improvements in the management systems in this area.

The competitive advantage is one of the achievable benefits associated with socially responsible activities. The competitive strength of companies in the global economy depends largely on providing clients with goods and services of the highest quality and standards. And this, in turn, in the knowledge-based economy depends on having well-educated staff who feels safe, lives in decent conditions and is motivated towards personal development and innovation. Organizational, process and product oriented innovations (marketing innovations to a lesser extent) increase market competitiveness. Ecological innovation translates into the ability of the organization to implement ideas in relation to the market, in the context of external ecological tendencies and internal conditions. However, it should be understood that these innovations bring both benefits and harm, it is the society who makes the corrections.

The research carried out in the field of reporting corporate social responsibility indicated that despite many benefits resulting from CSR reports, enterprises are not always transparently reporting important issues that should arise from them and this is mainly due to the fact that:

- organizations are ‘ashamed’ of results achieved in the field of social responsibility;
- competitors do not publish reports - no competitive advantage (lack of comparability);
- organizations are afraid of disclosing information that may have legal consequences and can have a negative impact on their business (e.g. environmental issues, compliance with labor law etc.);
- organizations are worried that disclosure of certain information will contribute to the deterioration of their reputation;
- organizations fear negative media coverage related to e.g. their failures;
- managers do not understand the essence of reporting;
- managers are not aware of the essence of reporting;

- organizations believe that reporting social issues is not significant enough;
- managers are not interested in improving performance in terms of corporate social responsibility;
- managers fear that the costs and input of work in the reporting process will be too high;
- managers do not believe there are tangible benefits to the organization in a short period of time;
- organizations fear that they will be suspected of having a mercenary interest in areas where they want to realize their social mission;
- CSR is used for public relations purposes with little regard for the improvement in individual areas of the organization.

The existence of a link between the financial results of Polish companies and CSR was confirmed by the study 'Corporate Social Responsibility; Facts and Opinions' carried out at the request of KPMG and the Responsible Business Forum. In the study 77% of the surveyed enterprises indicated that actions consistent with the CSR concept have a positive impact on the company's bottom line. Currently, on the market one can observe a 'fight' not only for the client, companies compete with one another for investors and EU funds.

V. SUMMARY

Concluding the above considerations, it should be observed that reporting corporate social responsibility successfully complements traditional financial reporting and is the integral part of business reporting. However, the lack of binding CSR standards for individual industries means that in economic practice, any type of disclosure, which is not financial reporting, takes a different form, which may lead to distorting information about social issues that are passed on to stakeholders.

In practice, creating the value of a pro-social enterprise is not an easy task and requires much greater rigor in the whole process of building and implementing a company's strategy than just image-related initiatives e.g. sponsorship. First and foremost, it is necessary to connect responsibility for the implementation of social values to other areas of corporate management. However, there is no internal contradiction between improving competitiveness and real involvement of the company in matters related to the common good. Such activities, if only aimed at increasing social value, may constitute a new competitive weapon able to bring effects that fully compensate for the expenditures incurred by the company. Considering the above, it should be noted that reporting corporate social responsibility in the modern economy has become a necessity triggered by the increasing demand for information and deepening 'value gap'.

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