AN ACCOUNTING PERSPECTIVE FOR ASSESSING CORPORATE SOCIAL RESPONSIBILITY

MIHAELA UNGUREANU
"ALEXANDRU IOAN CUZA" UNIVERSITY OF IASI, ROMANIA
myhaella5@gmail.com

Abstract:
Along with the rapid development of the world economy in the last century have increased the concerns to create a great civilized industry. However, some companies still ignore their social responsibility in environmental protection and employment, while focusing on immediate gains.
The article aims to show that a viable solution to these problems is to improve the knowledge of managers and accountants in social responsibility in order to encourage a responsible behavior of enterprises. Also, business owners in particular must realize that sustainable development of the economic environment essentially depends on the sustainable development of each company, which is not possible without investing in environmental and labor protection. In this respect, the accounting needs to adapt for providing a more accurate assessment of costs and benefits of different environmental policies that managers want to implement.

Key words: *CSR, performance, investors, intangibles*

JEL Classification: M14, M16, M41, O16

INTRODUCTION

The only objective of maximizing equity, in its modern version to maximize value creation, does not allow a company to social challenges. The classical concept of a company is that of an economic unit that produces goods to meet various needs and maximize utility, which requires profitability of equity. This concept which has been methodological applied for the company's finances, has its origins in Hedonistic and Utilitarian schools' ideas, the philosophical basis of economic sciences, which constitutes the theoretical basis of the economy. The normative objective is to maximize the equity, as a standard for assessing the managers and board members' accountability.

The CSR concept was later added to this approach. CSR has some broader objectives involving socio-economic issues. According to specialized literature, the social responsibility extends beyond the pursuit of economic profit and also implies protecting and increasing community welfare. The argument is that firms should not only meet the needs of their owners, but also those of a set of actors involved in their activity (stakeholders). The concept is based on the interdependence between business and society and the variables that influence this relationship. More interactions come into play in this respect: businesses and governments, businesses and wealth of nations, businesses and sustainable development, business and competitive advantage of nations.

Attention for corporate social responsibility has significantly increased over the last decade. Many companies have started to make various reports of their ethical, social and environmental behavior. In marketing, for example, being green and social is a relevant product and a characteristic of the company. In the academic research, CSR has also become a topic of wide interest, many studies investigating the link between financial and social performance. There are already many theoretical perspectives on the relationship between the two performances and a growing number of empirical studies analyzing this relationship. So, has been identified a negative relation between social and financial performance when managers pursue their own objectives which may conflict with the objectives of shareholders and stakeholders. They argue that companies will put social responsibility prior to the financial one, looking for legitimacy, when the stakeholders' pressure arises.

The "Global Compact" program provides for the companies around the world some fundamental principles of human rights, labor and environmental standards. Organizations were successively introduced to social responsibility in Europe and America, being gradually established assessment and certification systems. Of all certification standards, SA8000 is the most influential, being independent of other certification or audit activities. This is formulated under the International Treaty of work organization, the Universal Declaration of Human Rights and the UN Convention on the Rights of the Child to ensure that the products offered by manufacturers and suppliers meet the social responsibility requirements.

1. SOCIAL RESPONSIBILITY FROM BUSINESS OWNERS' PERSPECTIVE

Enterprise represents a set of investments designed to produce a service or to obtain a product for consumer needs. In an economic and financial sense, the investments set is equal to a set of tangible and intangible assets whose amount represents the profit and is also equal to the total amount of debts and equity. Understood in such way, the wealth of an enterprise is given by the sum of its assets.

The value of a company is not equal to the value given by its owners, as in the case of a third funding not all assets belong to the owner. This implies that the owner's fortune is not necessarily equal to the wealth of the company, if it is measured by total assets. If the property is measured by equity, measuring social responsibility must take into account this particularity. Moreover, the emotional degree of satisfaction is currently perceived by the owners (shareholders) and is not necessarily equal with the emotional satisfaction established by stakeholders. So, from the perspective of owners, to assess social responsibility, they are responsible up to their contribution in the company, which is not necessarily equal with the property given of its total assets. This feature determines the delimitation of the two ways of measuring social responsibility. Consequently, the the emotional welfare is perceived and evaluated by these parties, which will then indicate their degree of satisfaction with the economic entity.

There are specialists who claim the end of corporate social responsibility and that its progress will be stopped when companies will face a recession. Similarly, the concept will be eclipsed by an alternative ethical philosophy when it ceases to provide a competitive advantage, and investors will experience a significantly reduced yield. In other words, organizations realize that profits are made from inherently antagonistic relations between capitalist and worker, so they will have to rethink social activities, when profitability is threatened. In the long term, organizations can act in a socially responsible manner only if their goals are consistent with those of the society in which they operate, and this can not be valid in a society divided by antagonistic social classes.

2. CSR – INTANGIBLE ASSET OR LIABILITY?

Given the challenge to measure and evaluate CSR as an obligation, there is also the interest in identifying, in accordance with the accounting theory, how the relevant issues should be classified to be properly recorded in the accounts.

However, the literature has not yet deeper this issue. So, the possible incorporation of CSR policies in the accounting records relies on developing some useful concepts considering CSR as an intangible element, but not necessarily an asset.

According to IAS 38 “Intangible Assetes”, are defined as intangible all those assets without physical substance which grants rights and privileges to the owners of a company being, at the same time, inseparable from it. Also considering IAS 36 “Impairment of Assets”, are intangible those assets for which it is difficult to determine and regulate future benefits they will provide. This includes all the elements of a company whose existence is perceived after identifying the monetary and tangible assets. These intangible assets are classified into four categories: rights, relationships, grouped intangible elements and intellectual property. In dealing with the CSR, rights are a significant case. So, are considered all those rights set out in relation to other companies and businesses, individuals and governments through contractual agreements.

However, there are also not necessarily contractual rights involving relationships allowing to the company the development of some exclusive economical tasks and, at the same time, to have good relationships with others parts. The definition of social responsibility includes explicit contracts whose results are not always easy to appreciate, so there are also implicit contracts, difficult to assess, especially in relation to the benefits offered by the company, such as respect for the ethics and for the environment, jobs and others things involving investments whose income can not be clearly identified.

According to the accounting theory there are some contracts that can be evaluated, as they give to the company the opportunity to provide useful goods and services. Among them are those services aiming the quality of the employees’ life (health insurance), intercompany loans, the number of employed students, license to use intellectual property and franchises to protect a territory or a product line. However, what prevents CSR from being considered an intangible asset is just its degree of separation from the company’s activity. It is very difficult to state that a company can consider CSR as an asset that can be alienated independently and separately from company. From another perspective, in the context of International Financial Reporting Standards (IFRS), may be explicitly presented the requirements to be met in order to determine whether an asset can be intangible or not.

Generally, it is considered that an asset should be easily identifiable, which means that intangible assets must be separated from the company. CSR meets the requirements of IFRS for intangible assets, except for the identification and separation. So, the possibility to consider CSR as an asset can be excluded. Despite this, there is a possibility to record CSR off the balance sheet, such as rights and obligations. They should be adjusted each year based on the value of the implemented social responsibility policies, which depends on the considered evaluation methods.

Creating a social contract requires that the statutes of companies under the contractual relations explains to identify the direct obligations of a company; situation differs for the obligations relating to parties outside the direct relationships (competitors, local and public authorities); is considered then that there is a tacit social contract between civil society and business: the company provides the legal framework that enables businesses to use natural resources and labor, in terms of fraud prevention and compliance with human beings. Instead, the society expects that the firms’ products to be superior to costs. If this social contract is accepted it follows that all public data review and information analysis, enabling the company to assess its performances, are not only legitimate, but also desirable.

The argument for the social contract is similar to the view of stakeholders, presented by the american John Mackey, founder and CEO of Whole Foods Market (1980), in a debate with Milton Friedman before the latter's death. Mackey argued that each stakeholder will define a business purpose to its own needs and desires, and each perspective is valid and legitimate. Although adept of social responsibility policy, Mackey admitted, however, that up to a point, philanthropy is just a good business, an excellent marketing strategy.

3. THE MEASUREMENT OF CSR

In the context of the growing attention given to the concept of corporate social performance measurement has become a booming business. Governments, non-governmental organizations, academia and, not least, companies are interested in quantitative indicators to measure corporate governance and environmental, social and economic performance of enterprises.

Ethical investments or socially responsible investments (SRI) can be seen as full rising industries that rely on detailed information about social activities to identify firms found acceptable for such investments. Although the SRI field is often associated with investments in small businesses with highly relevant social projects (eg. green economy), financial markets are introduced by a growing number of SRI funds comprising listed companies that have experienced a corporate social responsibility performance. In this way, the SRI considers applying CSR criteria for investment decisions, so inadequate assessment of CSR issues is crucial for SRI funds. Their defining quality is given by the inclusion of investments used to select or exclude the assets based on some evaluation forms of CSR a priori to investment decisions.

Measurement and evaluation of CSR activities is an important element, but its development is just at beginning. A study conducted by PriceWaterhouseCoopers in 2003, but used in the literature since 2005, indicated that social responsibility was still in a condition of clarity and consolidation within companies and incorporation of relevant indicators was in its infancy.

The concept of “social equilibrium” provides a method for assessing CSR by providing to the society an inventory of a company’s social actions through its accountability. However, developing a social equilibrium has not been standardized and has no universal criteria, rules and conventions that allow consistent comparisons and evaluations of CSR in all companies.

Literature presents the example of certain organizations that provide guidelines for evaluating and measuring key aspects of social responsibility. Among these may be mentioned The model of business excellence - EFQM (European Foundation for Quality Management) Provisions of the United Nations, the European Community Green Book, SAI 8000 and Guidance on Global Reporting Initiative (GRI).

In this context, David Grayson (2006) recommended “The seven-step model for Corporate Social Opportunity” for small businesses, as shown in Table 2.1, which highlights the critical importance of separating the CSR issues for SMEs, and the owners or managers’ role in building motivation and commitment to CSR.

Tabel no.1 The seven-step model for Corporate Social Opportunity

Step 1	Studying business
Step 2	Enterprise resources assessment
Step 3	Investigate and identify rationales of a responsible behavior
Step 4	Involvement in social responsibility
Step 5	Developing the CSR strategy
Step 6	Recognition and involvement of stakeholders
Step 7	Evaluating and reporting

Source: Daza, J. R. (2009) “A valuation model for corporate social responsibility”, Social Responsibility Journal, Vol. 5, Issue 3, pp. 285-291.

An alternative model is that in which investors have preferences for both financial benefits as well as for the social ones, being interested to invest in companies that engage in social responsibility. The model shows that if citizens are indifferent to personal contributions for social causes and to share in corporate social expenses that supports market values of companies are independent of their social spending.

Another model presented in the literature assumes that shareholders are not indifferent to personal contributions and to corporate social expenses, where social spending is costly for shareholders. It is considered that the motivation behind corporate social responsibility within a framework where firms directly compete on a market. A firm is motivated from a moral point of view and voluntarily deals with a negative externality associated with the production. Another firm is motivated by self-interests and approaches an externality only if there is enough pressure to do so. Companies segment the market in terms of moral motivation: a high price is established for the companies that attract those consumers who appreciate mitigate externalities; a low price is established for companies motivated only by self-interest and by attracting consumers who are not interested in such expenses.

Corporate social responsibility has three explanations in theory. Primarily, social spending could be rewarded. Consumers can appreciate these expenses and therefore be willing to pay more for a product of the company. Similarly, the social responsibility of an enterprise could improve productivity by motivating employees to work harder or better. Secondly, managers may engage in CSR pursuing an activity of consumption or public recognitions. Thirdly, investors may consider corporate social responsibility, in which case can hold shares in a company even if, because of its social costs, the financial rentability is lower than in other existing entities on the capital markets.

Citizens have three roles in this theory. First, they are the consumers who can reward the company for its social spending. In the second place, they are the investors and possibly shareholders, which may encourage social expenditures. In the third place, they contribute to social causes directly through personal contributions. Market value of the firm is therefore equal to the financial profitability plus market valuation of its social expenses, if citizens' preferences for personal contributions allow the evaluation of corporate social costs. Shareholders have a preference for such expenditures are willing to pay a premium in addition to the financial return, so those firms' shares have a lower level of profitability than those's without social costs.

When a company's social expenditures are rewarded by consumers, shareholders choose compensation schemes that provide both profit and social incentives. This compensates the distortions in stimulating financial performance needed to address the effort and hidden information. Especially the firms with products whose demand is influenced by social expenditures would be expected to have compensation systems that are more comprehensive than financial performance, whether if shareholders consider or not these expenses.

Market equilibrium could void the costs of the responsible corporate behavior from a social perspective. Stakeholders feel that satisfying the interests they manifest will lead to an improvement in economic and financial performance of the company. However, it appears that previous financial performance conditionates the company's social responsibility more than its further financial performance. So, there was a perception that companies invest in social activities only to meet the stakeholders' demands. In market equilibrium, costs and profits of socially responsible behavior will offset one to another. The connection between social and financial performance also plays an important role in socially responsible investment analysis. From a portfolio perspective, the shares are eliminated of all investable assets.

Uncertainty about the relationship between financial and social performance is due to the lack of consensus on financial performance measurement. Evaluation based on accounting underlines the company's profitability from a historical perspective that captures a wide range of performance indicators such as ROA, growth in assets, operating revenues. This approach may be biased due to the differences in accounting and managerial handling procedures. Market-based assessments are less susceptible to the accounting rules and practices of manipulation of the management as they relate to investors' ratings and company's expectations. There are, also in this case, some weaknesses. For example, faced with asymmetric information, market-based ratings may not reflect an accurate estimate of investors. Using stock prices in financial performance evaluation is criticized by some authors, given that the share price only refers to financial stakeholders, the non-financial one being ignored. However, this assessment used to define corporate performance as financial profitability, envisages annual benefits accruing to shareholders from equity.

Nowadays, although developed countries have an internal CSR plan, they are also affected by globalization, which implies the interdependence with the rest of the world. The traditional perception of the company as a producer of goods or services considered in terms of profit maximization can be problematic when trying to explain the reality in this regard. However, it is trying a coordination between maximization of benefits and CSR actions, which involves extending the conception on the enterprise performance from the classical one to the relationship between its nature as a "homo economicus" and its social vision.

CONCLUSIONS

So far, there are more evidences of widespread use of the CSR practices but it is clearly demonstrated that the adoption of these practices lead to improved organizational performances. However, should be encouraged the orientation to social responsibility, without forgetting that the sense of being of an enterprise, of a business is to obtain profit. So, any entity expects that social or environmental policies' benefits to outweigh the incurred costs. But few truly understand what these benefits mean. Most managers expect immediate gains in cash, without realizing that short-term social benefits (reputation, strengthen relationships with partners and employees, improved public image) turn on the long term, into the economic benefits.

So, are expected from the enterprises qualitative products and services, and environmental protection measures, such as rational consumption of natural factors, and also a low impact achieved by reducing the volume of waste discharged or by producing biodegradable wastes. Managers should primarily consider the interests of the entities they lead, respectively to obtain economic benefits now and in the future, that if they do not find another motivation for environmental protection activities. Basically, it is exactly as for the reinvested profit: if is pursued the possibility of obtaining new products, strengthening the market position, then is needed to get a share of the profits for being allocated for property investment, personnel, technological processes. The environmental conservation investments are as necessary to ensure future economic activities. In some cases, the gains may overtake the expenses, even if they are not only obtained in a financial form.

Corporate social responsibility has become increasingly important in recent years due to the increasing number of institutions, mutual funds and online resources and other publications that specialize in encouraging companies to improve their practices according to various criteria of responsibility. The emergence of these practices in a growing number, have recently encouraged the research on the relationship between CSR and financial performance.

Until now, this line of research has produced mixed results on the effect of CSR, reflecting contradictory theoretical points of view on the relationship between CSR and financial performance. Most of these focus on financial performance assessments based or market-based accounting. Some studies examine the perceptions of capital market participants regarding CSR activities, leaving opened the question: *can CSR have a price set by the capital markets*?

REFERENCES

1. Carlin, B., Chowdhry, B., Garmaise, M. (2012), "Investment in organization capital", *Journal of Financial Intermediation*, Volume 21, pp. 268-286.
2. Coombs, T., Sherry, J. (2011), *Managing Corporate Social Responsibility: A Communication Approach*, John Wiley&Sons, UK.
3. Daza, J. R. (2009) "A valuation model for corporate social responsibility", *Social Responsibility Journal*, Vol. 5, Issue 3.
4. Filizöza, B., Fişne, M. (2011), "Corporate Social Responsibility: A Study of Striking Corporate Social Responsibility Practices", *Procedia Social and Behavioral Sciences*, No. 24, pp. 1405-1417.
5. Hackett, S., Moore, M. (2011), *Enviromental and Natural Resources Economics: Theory, Policy, and the Sustainable Society, 4th edition*, M.E. Sharpe, New York.
6. Hopkins, M. (2012), *Corporate Social Responsibility and International Development: Is Business the solution?*, Bath Press, UK.
7. Jiambalvo, J. (2010) *Managerial Accounting, 4th edition*, John Wiley&Sons Inc.
8. Othman, S. *et al.* (2011), "The influence of coercive isomorphism on corporate social responsibility reporting and reputation", *Social Responsibility Journal, Volume 7, issue 1*, pp. 119-135, http://www.emeraldinsight.com/journals.htm (accesat la 24 septembrie, 2012).
9. Pohl, M., Tolhurst, N. (2012), *Responsible Business: How to Manage a CSR Strategy Successfully*, John Wiley&Sons, UK.
10. Popa, O., Dina, G., Martinc, C (2011), "Promoting the corporate social responsibility for a green economy and innovative jobs", *Procedia Social and Behavioral Sciences*, No. 15, pp. 1020-1023.
11. Putrevu, S., McGuire, J., Siegel, J., Smith, D. (2011), "Corporate social responsibility, irresponsibility, and corruption: Introduction to the special section", *Journal of Business Research*, Vol. 1, No.3.
12. Vlachos, P., Theotokis, A., Panagopoulos, N. (2010) "Sales force reactions to corporate social responsibility: Attributions, outcomes, and the mediating role of organizational trust", *Industrial Marketing Management*, No. 39.
13. *** (2011), *Standardele Internaţionale de Raportare Financiară (IFRSs) – Norme oficiale emise la la 1 ianuarie 2011. Cuprinde IFRS-urile care intră în vigoare ulterior datei de 1 ianuarie 2011,* CECCAR, Bucureşti.
14. http://www.iasplus.com/en/standards/ias36
15. http://www.iasplus.com/en/standards/ias38
16. http://www.iasplus.com/en/standards/ifrs3
17. http://www.iasplus.com/en/standards/ifrs9

Aknowledgements

This work was supported by the the **European Social Fund** in **Romania**, under the responsibility of the Managing Authority for the Sectoral Operational Programme for **Human Resources Development** 2007-2013 [grant POSDRU/CPP 107/DMI 1.5/S/78342].