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CORPORATE SOCIAL RESPONSIBILITY THROUGH THE LENS OF ACCOUNTING

DRUŠTVENO ODGOVORNO KORPORATIVNO UPRAVLJANJE S ASPEKTA RAČUNOVODSTVA

ABSTRACT

Corporate social responsibility is an imperative for participants in the modern business environment. In addition to achieving the substantial business goal of today's corporations i.e. profit, companies do devote considerable attention to the environment and the community where they carry out their activities. The implementation of all activities requires a good information base, thus a socially responsible conduct of business operations with its basis lying in accounting. This paper will analyse the main characteristics of corporate governance, corporate social responsibility and the importance of accounting as information support to corporate social responsibility, focusing on green accounting, as a representative example of the accounting support to socially responsible governance. The aim of the study is to show the importance of building awareness of corporate social responsibility as a corporate strategy aiming at achieving the company's business goals.

Keywords : corporate governance, corporate social responsibility, accounting, green accounting

SAŽETAK

Društveno odgovorno poslovanje predstavlja imperativ savremenih poslovnih subjekata. Pored ostvarivanja vrhunskog cilja poslovanja današnjih korporacija – profita, značajnu pažnju kompanije posvećuju i brizi za životnu sredinu i društvenu zajednicu u kojoj obavljaju svoju delatnost. Realizacija svih aktivnosti zahteva dobru informacionu osnovu, pa tako i realizacija društveno odgovornog poslovanja, a ta osnova leži u računovodstvu. U radu će se analizirati osnovne karakteristike korporativnog upravljanja, društveno odgovorno poslovanje i značaj računovodstva kao informacione podrške društveno odgovornom poslovanju sa fokusom na zeleno računovodstvo, kao reprezentativni primer računovodstvene podrške društveno odgovornog poslovanja. Cilj rada je prikazati značaj izgradnje sveti o društveno odgovornom poslovanju kao vidu korporativne strategije kojom se ostvaruju poslovni ciljevi kompanija.

Ključne reči: korporativno upravljanje, društveno odgovorno poslovanje, računovodstvo, zeleno računovodstvo.

1. Introduction

The modern business environment in which business entities exist today is characterized by intense competition, continuous scientific and technological advances and the need for continuous pace-keeping with innovations as well as focusing on customers' needs. Customers and consumers are becoming the central concern of any business entity since they are the ones that dictate its business activities. The desire for profit as the ultimate goal of a business is the most important premise of the focus of interest of every business entity. By realizing this ultimate goal, business entities lose their sense of social responsibility i.e. care for the environment in which they exist. This fact has negative implications, especially when business entities with so-called "dirty technologies" are concerned, those that destroy or degrade the environment in which they operate, all with a view to making profit. All this points to the need for the development of corporate social responsibility as the ultimate intention of today's business entities. Through profit-making, businesses should allocate a portion of the funds for a number of socially responsible projects since this will provide multiple benefits both for their business and the community in which they operate.

Corporate governance, as the ruling paradigm of modern management, in addition to focusing on achieving business goals, should pay considerable attention to the corporate social responsibility aspect of their activities. An important role is given to accounting, which should be the information support to management in the implementation of corporate social responsibility and its major driving force in the administration of projects of this nature. A particularly important role in this segment has been taken by green accounting, which follows all activities relating to the protection and improvement of the environment, as the basic category of corporate social responsibility.

2. The main determinants of the modern process of corporate governance

The analysis of problemacy of corporate governance, including its determinants and contemporary trends, the need for a definition of its notions, becomes evident. We will accept the definition set forth in Cadbury's report back in 1992, according to which corporate management is a system by which companies (business entities; authors' note) are managed and monitored. Management via the process of corporate governance determines the strategic goals of business operations, implements them and monitors the activities of all employees towards achieving the goals defined.

Corporate governance should create conditions for attracting human and financial resources into business entities i.e. create conditions for effective operation and long-term sustainable development. This objective of corporate governance is particularly important in present circumstances when market competition is becoming all the more intense and ruthless, where an entity is almost daily faced with the struggle for survival. Today, a proactive approach by the management is required in decision making i.e. there is a need for management actions aimed at preservation of existing and winning new market positions. It is in no way an easy target.

From its appearance in the currently most powerful market economy of the United States, until the present day, a number of problems have been identified, which have presented a

burden to the smooth development of the system of corporate governance. The main problem in the development of corporate governance, both in the United States and other states, primarily in the UK, is focused on criticism of the enormous powers which CEOs have had, which could be misused to promote personal interests, neglecting the interests of the company. This is best evidenced by scandals in companies such as "Maxwell" and "Polly Peck International". As a product of these facts a number of issues in corporate governance framework have emerged, which primarily relate to the establishment of a balance of power within the board of directors, denouncement of individual executives to dominate the decision-making process, making effort to secure fair compensation for all directors, creating conditions for external auditors to remain independent and free from the influence of the company and increase the level of responsibility of the Board of Directors in monitoring and managing risk. In addition to these questions other issues may be set forth as well, such as promotion of business ethics and corporate social responsibility awareness and prevention of mobbing at the workplace.

With the development of corporate governance, certain models of it have become more distinct. Two important variables were involved in the identification of different models of corporate governance as follows: structure of shareholder and its stability. The first variable involves various structures of shareholders starting from uniform and monolithic (one person or one family), to complex (joint stock companies) and heterogeneous, a structure that includes a large number of participants, such as depositors, institutional investors, managers, employees, and the like. The other variable in turn implies stable shareholding or variable shareholding, which is subject to constant change due to the sale of shares. Interaction of these two variables the following models of corporate governance were found, namely (Cantino, 2009, 6):

- ✓ businesses with dispersed ownership and public companies which are characterized by complex and variable share capital structure,
- ✓ businesses with a limited number of owners or private businesses that bind a unique and stable structure and shareholders
- ✓ businesses with a limited circle of ownership or partnerships that are characterized by a complex structure and stable shareholders.

For ease of understanding the same model of corporate governance will be graphically displayed in the following table:

Table no. 1 Models of Corporate Governance

Ownership structure	Durable structure	Variable structure
<i>Unique</i>	<i>Private business entity</i>	
<i>Complex</i>	<i>Partnership</i>	<i>Public business entity</i>

Source: Cantino, 2009, 6

Analyzing table 1, it becomes clear that ownership structure of business entities can be unique and complex. A stable shareholder structure is characteristic of private businesses and partnership businesses, while the variable structure can be related to public businesses.

Corporate governance can be divided into two basic models relating to the outsider i.e. the Anglo-Saxon, Anglo-American or liberal model and the insider, continental or coordinated model. In recent theoretical debates, a third model of corporate governance emerges, better known as the Japanese model whose characteristics are much closer to the continental model of corporate governance. Basic characteristics of the outsider model of corporate governance

are reflected in the dispersion of ownership, extremely active capital market, the existence of a high degree of equality among shareholders as well as in the fact that the majority within the board of directors are non-executive directors. In the outsider model the main shareholders belong to sophisticated institutional investors. In the insider model of corporate governance dominant shareholders are families, banks and the state. Among other characteristics of the insider model, we can point out the existence of concentrated ownership, underdeveloped market of corporate control, as well as the existence of inadequate protection of minority shareholders .

3. Corporate Social Responsibility - investment in a better future for all of us

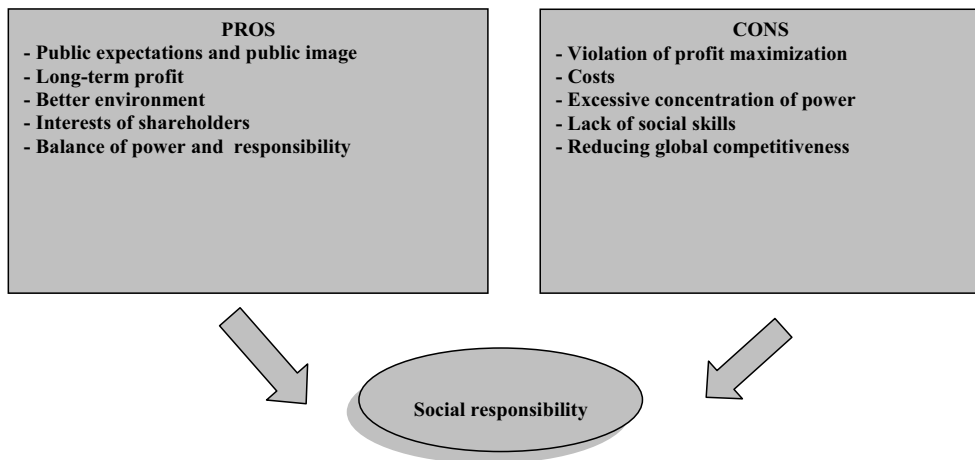
The lack of morality, self-interest and concern for profit characterize current time, which is increasingly gaining the features of an arena where modern gladiators - the global corporations wage a war where every error is paid by one's own demise. These circumstances have introduced the need for any modern corporation to be primarily oriented towards their own development, while the concern for public interest is tossed to the background. Although the impact of these hazards and obstacles in today's circumstances is more intense, there are companies that, despite all this, pay considerable attention to the social environment in which they exist. In fact, through corporate social responsibility companies build their corporate image, creating a positive image of their business within the society, thus creating a favorable opinion of direct consumers about their business and their concern for the welfare of the society. All in all, it can be concluded that profit remains the main interest of companies, even if they are socially responsible. Profit represents the crucial and supreme goal of every company. By achieving that goal the company proves the reason of its own existence.

With the aim of contributing to the community in which they operate, companies try to incorporate into their strategy the concept of social responsibility or CSR. These activities are realized through the company's environmental projects, promotion of human rights, granting scholarships for gifted students, promotion of healthy lifestyles and creating better conditions for health care and many other activities. In implementing CSR, companies build it into their marketing strategy, thus making these activities available on the open market i.e. making them transparent.

Promoting the concept of social responsibility, companies try to make their businesses more competitive by improving their market position by providing higher customer loyalty, enhancing the reputation of their business with financial institutions and a number of other benefits. In the implementation of these projects socially responsible companies cooperate with representatives of civil societies, including various non-governmental organizations, state agencies, higher education institutions etc. In order to promote their socially responsibility business activities the company must create such a system of promotion of their activities which will create appropriate social perception and represent a mechanism for the implementation of their own corporate marketing strategy.

It can be concluded that social responsibility in today's business world has become imperative, which no longer represents a cost but an investment in the business by building one's own corporate identity. It is a major decision that is valorized on a range of social and economic effects increasing benefits to both the corporate business and the whole of the society. Like any other economic category, corporate social responsibility is subject to challenge. In the figure, the pros and cons of corporate social responsibility are presented:

Figure no. 1 Pros and cons of corporate social responsibility



Source: Bahtijarević – Šiber, Sikavica, Pološki Vokić, 2008, 563

Analyzing Fig. 1, it can be seen that, despite the generally accepted concept that corporate social responsibility is rather an investment than operative cost, in theoretical debates about social responsibility there are numerous dilemmas on whether or not to opt for corporate social responsibility. As part of the commitment to social responsibility, we find a number of arguments, such as the realization of long-term profits, realization of the rights of shareholders (shareholder), providing a better environment etc. On the other hand, there are also numerous arguments against the concept of corporate social responsibility, such as violation of the concept of maximizing profits, excessive concentration of power, absence or lack of social skills and the ultimate negative effect is, in fact, reduction of global competitiveness of the corporation.

If we consider the trends in the development of corporate social responsibility, three basic concepts of social responsibility may be identified, namely: the concept of corporate citizenship – it means awareness of the management of the need for corporate responsibility for active and equal involvement in solving current social problems and focusing on the creation of quality living conditions for the citizens; environmental or green management – it includes management responsibility for environmental protection and performance of business activities towards providing ecologically successful business results and social entrepreneurs – a term referring to business leaders who intend to change the world and whose priority is not making profit, but improvement of social conditions. Their main philosophy is that the world should be made a better place to live for all.

At the end of the discussion on the concept of social responsibility we will focus on corporate social responsibility in Serbia. With a growing involvement in the global market trends, companies in Serbia should strive to increase the level of social responsibility. Although significant progress may be felt in the concept of corporate social responsibility the level of development is still at a rather low level. Leading domestic companies have got involved in CSR realizing its importance for their overall social development. In the future, the following

measures should be taken in order to improve corporate social responsibility in Serbia: to encourage launching a large number of media campaigns and hold meetings and seminars in order to highlight the importance of corporate social responsibility, to pass a legal act that will promote socially responsible business activities in the Republic of Serbia and encourage active implementation of existing legislation governing the issue of corporate social responsibility and building a system of incentives that would allow development of corporate social awareness in domestic businesses. For the implementation of these activities in the future a greater role of the state is required.

4. Corporate Social Responsibility – The Accounting Aspect

Modern management, within the focus of its own interest, sets profit making for its priority and considers it the most important performance indicator of corporate performance in modern market conditions. Too often, in achieving this goal companies forget the society where they exist. Fortunately, in recent years, the concept of corporate social responsibility is increasingly and extensively promoted, which apart from profit making, takes into consideration the interests of the community in which corporations operate. The question of how these tendencies aimed at raising socially responsible operations reflect in accounting i.e. within the system of financial reporting. In the discussion on the social responsibility via the accounting aspect, attention will be paid to reviewing accounting issues of the environment, as the fastest developing segment that follows the CSR of companies.

Contemporary socio - economic development has caused the need to develop new forms of accounting that need to respond to an increasing number of demands that are placed in front of the accounting information system, and one of the most pressing demands relates to the accounting scope aimed at preservation of the environment, resulting in the development of environmental accounting or green accounting.

Accounting for the environment or "environmental accounting and reporting", as it is often referred to at national level, has the task of providing relevant and reliable information required for effective and efficient environmental management at state level. This kind of accounting might also be called macro green accounting. On the other hand, we have green accounting at the level of the business system, usually at company level, which is recognized as a segment of financial and management accounting. In fact, the overall attitude of the society towards this very important issue depends on efficient and environmentally responsible business systems in the field of environmental protection. In the contemporary socio - economic reality, business entities are expected to show a high degree of social responsibility where environment protection is its integral part. The so-called "Green accountant" is required to pay considerable attention to assessing the ecological value at the level of the social system since it is the precondition for preserving the environment as well as for our existence on planet earth.

There are many theoretical approaches to the observation of green accounting and reporting, but one of the most accepted and applicable accounting model looks at the accounting of the environment as a whole made up of five parts (Knežević, 2011, 49):

- ✓ **Environmental hazard** - means that the environment is in constant danger and threat;
- ✓ **Social or corporate responsibility** – the actions of numerous industries inflict significant damage to the environment endangering its survival, leading to its degradation and causing substantial pollution. For these reasons, in the next period,

attention should be paid, both at the level of the company the individual, to environmental protection, in order to avoid drastic changes and enable business activities in accordance with the generally accepted principles of social responsibility;

- ✓ ***Establishment of a new and better relationship*** between the industry and the environment in order to preserve natural resources, achieve sustainable development and prevent negative climate changes such as global warming and improve the quality of biodiversity;
- ✓ ***The need for quantification of both positive and negative impacts*** of industrial activities on the environment, and reporting on this, and
- ✓ ***Long-term orientation of industry*** towards environmental preservation as a crucial aim of future activities of modern global companies.

The accounting policies of the business entity may establish the obligation of ecological report making aiming at preservation of the environment. These reports may define the following²:

- ✓ Financial indicators to measure economic - environmental effects;
- ✓ The need for standards of environmental accounting;
- ✓ The savings and investment in environmental protection;
- ✓ The development of ecological processes and products and
- ✓ Identification of information required to estimate the costs of environmental protection.

Aiming at better identification of the structure of the costs of environmental protection the previous classification may also be represented graphically²:

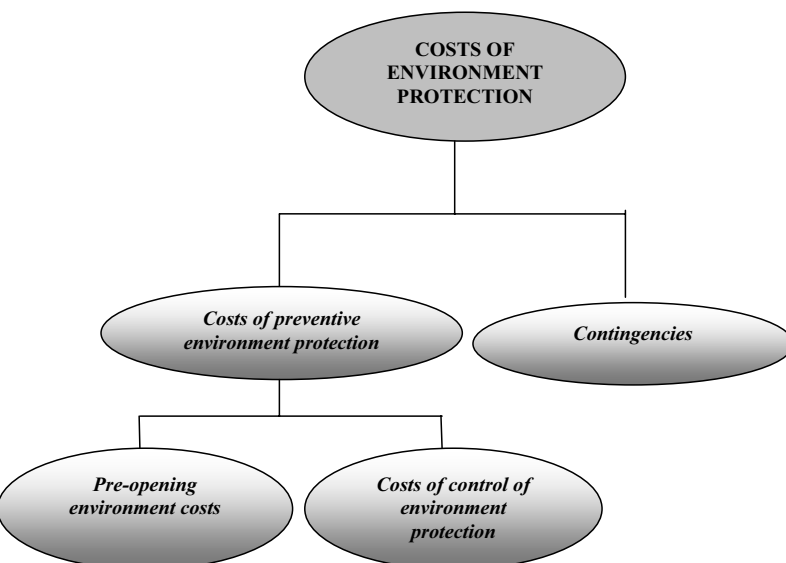


Figure no. 2 Costs of environment protection (as per ISO standards 14001 and 14031)

As you can see from the attached Fig. 2, the cost of preventive environment protection includes pre-opening environment costs as well as control costs of environment protection. Within the pre-opening environment costs different types of costs may be distinguished, such as costs of production factors incurred by market research, cost of production factors caused by implementation of environmental policies etc. On the other hand, within the framework of the costs of the control of environment protection a number of costs may be distinguished, such as the cost of control of input and output production factors, cost of transport of hazardous raw materials etc. Unforeseen costs include various types of costs, which occurred primarily as a result of untaken ecological measures and within them we may differ: the cost of emergency response to eliminate harmful effects on the environment, costs of stopping or closing manufacturing processes, damages caused to natural resources and people, etc. In fact, all the costs of environment protection can be classified into four basic groups of costs that are reported in a separate report on environment costs (Berber, Đorđević, 2011, 53):

- ✓ The cost of prevention aimed at preventing pollution and waste;
- ✓ Costs of detection of environment protection;
- ✓ The cost of failure of internal environment protection and
- ✓ The cost of failure of external environment protection incurred in cleaning up the environment in case of release of pollutants.

Cost accounting in general, as well as cost accounting of environment protection consists of all parts that make up management accounting and one part of financial accounting. From this, it is safe to conclude that it is actually accounting of environment protection or Green Accounting composed of environmental financial accounting and management accounting of the environment, and thus it is the most important area of monitoring of this part of cost accounting of the environment.

Traditional financial statements do not provide adequate and clear information about costs aimed at conservation of the environment. This imposes the need, in current modern business environments, to make statements of environmental efficiency (profit and loss of the environment) that should indicate the benefits that a business entity felt in its operations on the basis of raising environmental awareness and increasing eco-efficiency of its operations.

When measuring environmental efficiency, the management of the business entity have different instruments and indicators. One of these indicators is (Knežević, 2011, 52):

FACTOR OF ECO-EFFICIENCY =

SERVICES (*new products/old products*)

LOAD ON THE ENVIRONMENT (*new products/old products*)

ECO-EFFICIENCY OF BUSINESS ALTERNATIVES =

ECONOMIC BENEFIT + REDUCED SOCIAL COSTS

COSTS OF ENVIRONMENT CONSERVATION

These indicators are used for measuring the efficiency of a business entity in environmental conservation, and the ecological efficiency of business activities. This is a particularly interesting indicator of the ecological efficiency of various business alternatives.

The problemacy of accounting follow-up of corporate social responsibility could be approached from a much wider perspective, but it would be out of the scope of this paper. In any case, the next period should yield increasing importance of corporate social responsibility and development of accounting methods that will allow their monitoring.

5. Conclusion

Corporate social responsibility is a growing challenge for companies if they want to secure their market survival. Those corporations that are ready to realize the need for corporate social responsibility will gain a significant competitive advantage by building a corporate image and reputation in the public. If a socially responsible business aims to achieve an adequate pace of development, it also requires the state to take an active role, which will, through its instruments, work towards encouraging and implementing the concept of corporate social responsibility within each company. Also, it is necessary to carry out continuous promotion of this type of business so that companies may realize its importance and the benefits that it brings, since it is the only way to impose this business concept in a profit-oriented society.

Accounting as the most important database of every company should provide a stable information base for monitoring projects of socially responsible business activities. The financial reporting system should be set up in such a way that considerably more attention is paid to projects of corporate social responsibility i.e. businesses shall report on their corporate social responsibility activities. Green accounting, as a separate segment of accounting, which follows activities for conservation and protection of the environment, has been gaining momentum recently. The future will positively contribute to the development of socially responsible business activities and their accounting follow-up i.e. development of new segments of accounting may be expected in the future, which will deal with the said trends.

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