

Disclosure of Environmental Responsibility Information in the Corporate Reporting of Economic Entities

Rozhnova O.¹, Mayorova E.²

¹ *Financial University under the Government of the Russian Federation (RUSSIA)*

² *Plekhanov Russian University of Economics (RUSSIA)*

orozhnova@fa.ru, mayorova.ea@rea.ru

Abstract

This article examines the topical issues within the corporate, social, and environmental responsibility reporting of economic entities. It focuses on studying the users of such reporting. The article presents relevant classification of users of environmental and social reporting information according to important characteristics amid ongoing digitization and globalization. After reviewing the results of a survey conducted among the employees of financial and accounting functions in medium-sized companies about environmental and social responsibility reporting, the authors concluded that the current situation favours further development of such reporting.

Keywords: Corporate social responsibility, environmental responsibility, business model, financial reporting, environmental reporting, integrated reporting, users of reporting information.

1 INTRODUCTION

In many countries, environmental disasters lead to social problems related to the contamination of large areas of the human and animal habitat. Sokolov, a classic of Russian accounting theory, has already identified five paradigms in accounting theory, including a sociological one [1]. It is the sociological theory viewed in a broader sense that encompasses the issues of environmental responsibility. According to Eremeeva, social and environmental issues are at the intersection of many theories, while "environmental accounting is an urgent modern requirement, though it has strong historical roots" [2]. However, the dramatic changes in accounting (a vivid example of which are changes in International Financial Reporting Standards) and the emergence of non-financial reporting are accompanied by conceptual, methodological and tutorial discussions and disputes. The issue of corporate social responsibility commands attention of the entire economic science community.

1.1 Literature review

The scope, concept, methodology and form for presenting the corporate social responsibility of economic entities in reporting have long caused heated debate among scientists, businessmen, those who create the economic information space and those who use it. Environmental responsibility is generally perceived as part of sociological accounting theory, the proponents of which include Tinker [3], Littleton and Zimmerman [4], Bedford [5] and others. The EU has adopted an approach to corporate social responsibility in terms of the internal and external areas of responsibility of economic entities [6]. The division of corporate social responsibility into two dimensions, as proposed by the European Union in 2001 [7], still provides a relevant structure. Internal environmental issues directly relate to matters of managing the impact of an economic entity's own activities on the environment, and external issues refer to the impact on the global environment. According to the European Commission, the corporate social responsibility is defined as "the responsibility of enterprises for their impact on society" [6]. Quite often, three components of sustainable development, including economic (profit), social (people) and environmental (planet) components, are identified as parts of corporate social responsibility.

Kuzubov, Danilenko, & Demchuk [8] provide an important review of the scientific literature on corporate social responsibility and related reporting. The authors used the Scopus database to analyze the academic research on this topic in business, management and accounting journals for the period of 1977–2015. This study revealed a significant increase in publications from 2005 to 2015, on the one hand, and many unresolved issues, on the other. In the area of accounting, most of the questions have been raised by the clash between the profit maximization theory [9] and stakeholder theory, which implies achieving a balance between the interests of shareholders and those of other

stakeholders [10]. Researchers note that the existence of different reporting standards for corporate social responsibility impedes mutual understanding both between the economic entities and between these entities and users of reporting information, even though the reporting in this area extends the scope of its user base [11]. In addition, mutual understanding requires confidence in the reliability and high quality of reporting. This aspect is very important, and it is also covered in the scientific literature, such as in the works of Edgley, Jones, & Atkins [12], Trotman & Trotman [13].

Some scientific papers examine the content of disclosures about specific issues of corporate social responsibility (Fernandez-Feijoo, Romero, & Ruiz [14]; Gamerschlag, Moller, & Verbeeten [15]; Hassan, & Ibrahim [16]). However, such studies provide only the basis for a more serious analysis of further improvement in the reporting standards of corporate social responsibility. For example, the willingness of investors to develop the reporting of corporate social responsibility information is analyzed in the works of Qiu, Shaukat, & Tharyan [17], Marsat, & Williams [18]. An in-depth scientific analysis of conceptual and methodological issues in environmental accounting based on more than 80 scientific sources was conducted by Rishar & Altukhova [19]. They came to the conclusion of the need to reform corporate law and accounting practices. The authors proposed the CARE model, which transposes the accounting model of traditional capitalism to natural and human capital. They concluded that this model could be seen as "a vehicle for true capitalism" and suggested establishing "a new environmental accounting law that would ratify a new vision of the concepts of capital and profit for environmental and social governance" [19].

2 DATA AND METHODS

The paper used data from Russian corporate reports, and the methods of analysis, synthesis, grouping and comparison were applied to provide an overview and systematization of various scientific views about corporate social responsibility as the subject matter of accounting science. The paper was prepared by using such scientific methods as analysis, synthesis, generalization, abstraction, historical and logical methods, comparison, and chronological method. To assess the need and feasibility of corporate social and environmental reporting by Russian economic entities, the authors conducted a survey of employees in financial and accounting functions. The survey involved 169 people working in medium-sized companies. The companies of respondents included both Russian and foreign organizations.

3 RESULTS

One of the key sources for building a reliable and high-quality information space in the economy is the reporting of its business entities. Reporting is usually divided into several types, such as financial reporting, tax reporting, management reporting, as well as other types of reporting, including non-financial information. The summary reports on social and environmental responsibility have been replaced by integrated reporting, which shows how the company's value is created as a result of interactions between the organization's strategy, corporate governance, performance, prospects and the external world [20].

The term "corporate reporting" is commonly used to refer to a unified report that brings together all types of the reports listed above. This reporting must be of high quality, i.e. it should be reliable, transparent and available to all users. As with any other reporting, its content and structure depend on the requirements and expectations of its users. Therefore, the question of who is using such reporting is very important. The state and development prospects of reporting depend on the nature of users, their impact on the economy, politics, and technological progress. Moreover, in certain conditions, the influence of users is due to their number and share in the global population.

The content and qualitative parameters of reporting; its actual submission by economic entities; the fate of such reporting, its significance, duration, the scale of the sphere covered by its impact, and its value for those who generated it depend on the ability of users to influence and their activity in solving national and international issues. The issue of those who use the information of corporate social responsibility can no longer be addressed as easily as the issue of those who use the information of financial, management and tax reporting, when the range of the most interested users is well-known, and their information requests, albeit changing, continue overall in the same manner.

First, it should be noted that reporting on social and environmental challenges is of interest not only to individual groups of users, but to humanity as a whole, since the social and environmental issues affect everyone living on the planet directly, rather than in an indirect way as in the case of financial

results. In this case, the number of potential users is not commensurate with the number of those who use financial, tax and management reporting information. Although the influence of an individual who is not a major investor, businessperson, politician or bureaucrat is small, the mere number of such individuals already creates a new quality. At the same time, new technologies for the dissemination and processing of information, and digitization also have an impact on the increase in the number of users and their awareness of both environmental and social problems, as well as the availability of corporate reports. An important role is also played by the ability of users, state and non-state regulators of corporate accounting and reporting to influence the economic entities with regard to the requirement for submitting the reports on their corporate social responsibility. In addition to answering the natural question of whether the users find such reporting satisfactory, credible and meeting their expectations, studying these users would make it possible to address the following issues:

- the speed and means of communicating/receiving the reporting information to/by the users
- the emergence of a certain worldview among the users under the impact of this information
- the possibility of increasing/defusing social tensions among the users (by indicating the facts)
- the desired means of visualizing this information in line with the level of digital technology
- the ability and interest of users to become active participants in generating such reports by preparing general recommendations for such reporting and recommendations for specific companies, along with the indication of important missed information, a lack of knowledge or disregard of material facts on the violation of social or environmental responsibility, etc., i.e. the interest of users in getting feedback from reporting entities and the authorities responsible for developing the reporting standards
- interest in volunteering in the practical environmental activities of specific economic entities by helping them to implement their environmental policies, programs and projects.

Other approaches to classifying the users of corporate social reporting information are emerging in the context of digitization and real environmental disasters.

Undoubtedly, it is still important to divide the users of such reporting information into internal and external users, but a key characteristic for classifying the internal users is their mastery of business intelligence tools and information technology, which reflects the digitization of the accounting sphere. Moreover, such skills become necessary both for accountants, all managers and, preferably, for all employees [21]. This characteristic is valuable in the context of the manner in which and how quickly the reporting information of economic entities can be communicated to virtually everyone in the world. For internal users, it would be advisable to use a characteristic that allows for dividing them into those who, due to their activities, should have information on corporate social responsibility in the entire company and/or in terms of its individual components and recognize their contribution and their and its own responsibility for achieving various social and environmental indicators. Information on the knowledge of relations with related parties and other external organizations (competitors, partners, regulators, public organizations, society) the collaboration with which determines both the global goals and objectives of the company and its individual particular indicators is also valuable for internal users.

Thus far, the most important division of external users is based on their economic essence, but, in the context of globalization, it would be advisable to divide them into international stakeholders and national stakeholders, as well as to divide them by the nature of their interest in the corporate reporting information. Table 1 presents several classifications to describe the users of corporate social reporting information that would be appropriate for further study.

Table 1. Classifications of users of corporate social reporting information.

Users and their groups	Characteristics of classification, classification groups			
Internal				
IT specialists preparing data and information for all tasks addressed by corporate reporting	Characteristic: mastery of digital computer technology			
	Digital technology specialists	Accounting specialists	Specialists both in digital technology and accounting	Information collection and processing
	Characteristic: nature of activity			
	Assistant	Independent specialist	Team leader	
Specialists	Characteristic: object of responsibility			

creating specialized applications to provide the information support of their business entities and processes	Business processes	Business entities	Business models	Companies			
	Characteristic: information product used						
Business users who do not create the information product on their own but use it	Ready-made standard products (e.g., applications)	Ready-made standard applications along with necessary and easy-to-use tools (e.g., MS Excel tables)	Specifically requested applications based on practical use, objectives, goals, and strategy				
External							
Users with different interests established by their goals	Characteristic: nature of user						
	investors	clients	partners	supervisory authorities	Tax authorities	Society as a whole and its socio-political groups	Social organizations (environmental, charitable)
	Characteristic: approach to obtaining the necessary information						
	Independently reviewing the reporting information by using digital technology, including artificial intelligence			Turning to the analysts			
	Characteristic: mediated participation in generating the reports						
	Active participant		Passive participant				
	Characteristic: practical experience of using the reporting information to address social and environmental challenges						
	Successful experience in addressing the problems		Negative experience in addressing the problems	Lack of experience			
Users at different levels of globalization	Characteristic: using reporting information of economic entities (problem solvers) at different levels of globalization for decision making						
	International (foreign)		Union of states	National			

Source: Prepared by the authors

Recently, many companies have been paying considerable attention to the environmental component in their corporate reporting. Corporateregister.com, a specialized database, includes more than 100 thousand reports on more than 17 thousand companies in the world (as of April 2019). But not all economic entities prepare exactly this kind of corporate reporting. Typically, what companies call corporate reporting is just a set of reports that are either poorly related or not related at all. Many medium-sized companies simply ignore non-financial reports, even when preparing IFRS financial statements. At the same time, even despite all the costs of preparing such reports, they also have an undeniable advantage over financial reporting [22]. To meet the interests of all people in the world, the corporate accounting used as the basis to generate corporate social reporting should continue to increase its multi-dimensionality, flexibility, be multipurpose and easily designed in any specified direction; and it should be primarily aimed at providing users with the ability to make forecasts. All this can be achieved through the use of Business intelligence technology, blockchain technology and other digital technologies. So far, the requirements of users have been in conflict with the results of corporate social reporting. For example, only about 50% of companies with an environmentally

oriented business model have increased their profits [23]. However, our study obtained the following results (Table 2).

Table 2. Results of a survey of employees in financial and accounting functions of mid-sized companies on the need and ability to generate corporate social reporting

Statements that had to be either accepted, rejected or ignored	Share of respondents who answered "yes" and work in companies, %	that do not prepare any environmental and social reports
	that prepare environmental and social reports	
Information is useful for the reporting company	59	32
Information from other companies is useful for you personally	93	84
In the next 2–3 years, your company plans to make non-mandatory social and environmental disclosures	91	26
Preparing the reports is too complex for the company and will add many responsibilities for me personally	7	88
I am concerned about environmental and social issues	98	92

Source: Prepared by the authors

Table 2 shows that all respondents in the survey understand the importance of such reporting and would like to receive such information from all other companies. At the same time, there are concerns that preparing such reports on their job will be too onerous. However, the companies that already generate such reports have clearly learned how to do so at a lower cost and see it as providing more benefits than creating problems. Such a survey demands further continuation and a more in-depth study of the nature of users and their information needs. However, it shows that there are prospects for developing and expanding corporate social responsibility reporting, and there is a need for more active users.

4 CONCLUSION

Globalization and digitization lead to unlimited growth of users of corporate social and environmental reporting information. Further study of users of corporate social and environmental reporting will make it possible to identify not only the shortcomings of existing reporting, but also the expectations of users, and will even allow for predicting them. This is necessary both for the developers of standards for such reporting and for the economic entities, which are enabled by all standards to report additional information, acquire feedback from the users, nurture the quality of their reporting and build trust in it among the users. Such reporting requires a high level of interactivity, care for its communication to users, convenience of using, and the expansion of the reporting area by extending it to comparative information on the industry and competitors along with the relevant links. It would be also useful to provide social advertising of such reporting and promote it like a healthy lifestyle.

REFERENCES

- [1] Sokolov V.Ya., & Sokolov, Ya.V. (2011). Accounting history. Moscow: Magistr, 187.
- [2] Eremeeva, O.S. (2016). Accounting environmental accounting in the system of accounting theories. *Audit statements*, 7, 37-42.
- [3] Tinker, A. (1984). *Social Accounting for Corporations: Private Enterprise versus the Accounting Interest*. New York: M. Wiener and Manchester: Manchester University Press.
- [4] Littleton, A. Ch., & Zimmerman, V.K. (1962). *Accounting theory, continuity and change*. Prentice-Hall, 1962.
- [5] Bedford, N. M. (1973). Corporate accountability. *Management Accounting* (November): 41-44.
- [6] COM (2011) 681 final. A Renewed EU Strategy 2011-14 for Corporate Social Responsibility, 2011.
- [7] COM (2001) 366 final. Green Paper Promoting a European framework for Corporate Social Responsibility, 2001.
- [8] Kuzubov, S.A., Danilenko, N.I., & Demchuk O.N. (2015). Corporate social responsibility as a subject of study in accounting. *International Accounting*, 17, 48-61.
- [9] Mathis, K., & Shannon D. (2009) Richard Posner's Theory of Wealth Maximization. In: *Efficiency Instead of Justice? Law and Philosophy Library*, vol. 84. Springer, Dordrecht.
- [10] Ivashkovskaya, I.V. (2011). Development of the stakeholder approach in the methodology of financial analysis: a harmonious company. *Corporate Finance*, 3, 59-70.
- [11] Moser, D.V., & Martin, P.R. (2012). A broader perspective on corporate social responsibility research in accounting. *The Accounting Review*, 87 (3), 797-806.
- [12] Edgley, C., Jones, M.J., & Atkins, J. (2014). The adoption of the materiality concept in social and environmental reporting assurance: A field study approach. *The British Accounting Review*, 47 (1), 1-18.
- [13] Trotman, A.J., & Trotman, K.T. (2014). Internal audit's role in GHG emissions and energy reporting: Evidence from audit committees, senior accountants and internal auditors. *Auditing: A Journal of Practice and Theory*, 34 (1), 199-230.
- [14] Fernandez-Feijoo, B., Romero, S., & Ruiz S. (2014). Commitment to Corporate social responsibility measured through global reporting initiative reporting: factors affecting the behavior of companies. *Journal of Cleaner Production*, 81, 244-254.
- [15] Gamerschlag, R., Moller, K., & Verbeeten F. (2011). Determinants of voluntary CSR disclosure: empirical evidence from Germany. *Review of Managerial Science*, 5 (2-3), 233-262.
- [16] Hassan, A., & Ibrahim, E. (2012). Corporate environmental information disclosure: factors influencing companies' success in attaining environmental awards. *Corporate Social Responsibility and Environmental Management*, 19(1), 32-46.
- [17] Qiu, Y., Shaukat, A., & Tharyan, R. (2016). Environmental and social disclosures: Link with corporate financial performance. *The British Accounting Review*, Available at: <http://www.sciencedirect.com/science/article/pii/S0890838914000705>.
- [18] Marsat, S., & Williams, B. (2014). Does the market value social pillar? (January 2014). Available at SSRN. DOI: 10.2139/ssrn.2419387

- [19] Rishar, Zh., & Altukhova, Yu. V. (2017). Proposals for reforming the fundamentals of an enterprise, joint stock company and social interest with the help of environmental accounting. *International Accounting*, 23, 1364–1379.
- [20] IIRC (2013). *The International IR Framework*, International Integrated Reporting Council, 2013.
- [21] Efimova, O., & Rozhnova, O. (2019). The Corporate Reporting Development in the Digital Economy. In: Antipova T., Rocha A. (eds). *Digital Science. DSIC18, 2018. Advances in Intelligent Systems and Computing*, vol. 850. Springer, Cham, DOI: 10.1007/978-3-030-02351-5_10
- [22] Rozhnova, O.V. (2014). Virtualization of financial reporting. *Life Science Journal*, 11(11s), 48-51.
- [23] Novostey.com. (2013). Environmental business model increases the profit of the company. Available at: <http://novostey.com/business/news500911.html> (retrieved 10.12.2015)

