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Business Performance Evaluation, in the Light of Corporate Social Responsability

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Abstract

Global economic and social changes determined managers to change traditional strategies and to approach business performance from new and totaly different point of views. Future strategies should pursue the value creation to all stakeholders. The aim of the article is to draw attention to the increasingly important Corporate Social Responsability (CSR) and to make proposals to measure it and to accommodate it in the Financial Reports. As a first step, I will make on overview of the theoretical approach of the (CSR) subject, than, I will present and propose a group of indicators to measure the CSR activity. Regarding to the material and methods, I used several CSR Reports, internationally recognized and applied indicators (e.g.: DJSI), rates for a quantitative and qualitative performance analysis). This paper brings a possible alternative to evaluate the companie's responsible behavior. Indicators are evaluating the companies accordig to different aspects. In addition to accounting and financial reporting, introducing the social (and environmental) reporting, would certainly have interest for local community (and not only), therefore the author recommend inclusion the results of corporate responsible evaluation in the notes to the Financial Statements mandatory for every enterprise.

Key words: social responsability, value creation, business performance
J.E.L. classification: G 32

1. Introduction

Business performance has been, it is and it will be, in the future too, a greatly discussed and studied topic by literature and everyday practice. Studying the broad range of definitions for performance notion (Neely et al., 1995; Rappaport, 1998), most definitions link the performance to other economic concepts, such as efficiency, effectiveness, achieving goals, productivity, profitability, etc. In my opinion, the business performance of the companies means reaching their own well-defined objectives, which can only be achieved with efficiency and profitability. Given the financial, social and environmental changes, managers have realized that it is no longer enough to deal with the performance of the companies solely based on economic, accounting and financial statements. Sustainability of businesses depends not only on them but, more and more on all directly or indirectly connected factors with the enterprise (eg. customers, employees, suppliers, different institutions, organizations, local community, society as a whole, etc.). Future strategies must aim at value creation, but not just for shareholders or customers, but also for all stakeholders (A. Neely et al., 2002). For sustainability, is needed something more give it for society, through different actions and strategies that have an impact on society and on environment. Sustainability of enterprises can be influenced by society, by the local community. It has been proven by countless examples that society can have a strong and direct impact on businesses. For this reason, companies' sustainability can no longer be separated from the Corporate Social Responsibility (CSR). Social responsibility includes those activities that lead to the development of society.

The point of the paper is to attract attention to the importance of social responsibility, to make public the efforts of companies in this regard and to inform better the society about these business processes, by including the CSR activity indicators in the Financial Statements.

2. Literature review: Social responsibility

Holme – Watts (2000) defines social responsibility as a commitment by organizations for an ethically behavior which leads to economic development along with improving the families, the local community's and society's quality of life. According to them, CSR includes the following five topics: human and employee rights, environmental protection, community involvement, supplier relations.

The European Commission defined Corporate Social Responsibility (CSR) as:"a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis". (http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52011DC0681).

Howard Bowen, also called the CSR parent, defined CSR as organization's commitment to behave in a way that will lead to the values and goals for society (Bowen, 1953). According to McGuire (1963), organizations have not only economic goals and obligations, they should have also some social responsabilities too.

Another definition for social responsibility, which is worth mentioning, belongs to the authors Keith Davis and Robert Blomstrom (1966). The authors refers to the effects of the person's or organization's decisions and actions effects con the society.

Harold Johnson's (1971) states that companies are doing so for CSR because they are clear that this will lead to higher profits. In this view, social responsibility is is a tool for long-term survival (Carroll, 1999). Henry G. Manne and Henry C. Wallich (1972) accentuated the voluntary nature of CSR actions (Manne, Wallich, 1972).

In 1975 appears the notion of "public accountability" (Preston - Post, 1975). Authors (Preston – Post, 1975) said that they use rather the notion „public" than „social" to „stress the importance of the public policy process, rather than individual opinion and conscience, as the source of goals and appraisal criteria" (Carroll, 1999).

The modern definition of CSR belongs to Carroll (1991). In his opinion elements like economic, lawful, ethical and philanthropic can compose the social responsibilitiy.

The interest shown by society to theese actions of the organizations has led to the development of various strategies in the field of social responsibility. More and more companies (especially multinationals) publish on their websites their activities in this regard. These policies generally refer to ensuring employees' rights, working conditions, environmental protection, education, community development, community investment, etc.

To support these initiatives, different standards of social responsibility were developed. We can mention:

• Workplace Standards (SA 8000 - Working Conditions, ILO-OSH 2001 - Occupational Health and Safety Management, OHSAS 18001 - Occupational Health and Safety)

• Quality management standards and other frameworks (ISO 9000, EFQM Model - European Foundation for Quality Management, ISO CR MSS - ISO Standards for Social Responsibility Management System)

• Environmental Management Standards (EMAS, ISO 14000)

• Other national initiatives

• The International Standard on Social Responsibility ISO 26000

• GRI G4 model, etc.

These reporting standards give us an idea of how organizations should behave and act in terms of social responsibility, and provide a non-financial reporting model.

3. Material and methods

According to the purpose of the article, I studied definitions and interpretations from Romanian and international literature for CSR, as well as CSR reports and performance measurement methods and models. To measure the effects of sustainable development activities, I have studied indicators used in many countries (e.g.: Dow Jones Sustainability Index – DJSI; Sustainable Value), rates for a quantitative and qualitative financial performance analysis, elements that are present in the Financial Statements and characterize the CSR activity, as well as the indicators used to measure the National Strategic Goals of Sustainable Development in Romania. Using these and the performance indicators used in the CSR reports, I have compiled a set of indicators that can measure and characterize the CSR business activity. Since CSR activity does not depend on the size of companies, I used only relative indicators (rates) in the compiled indicator group, thus eliminating the effects of the size difference between companies.

4. Assessing social responsibility activity

4.1 CSR reports

Besides the accounting and financial reporting, CSR Reports have also begun to emerge in Romania. These reports are made in a wholly voluntary manner, especially by international companies such as KMG International, Unilever, Ursus Breweries, Coca-Cola Group, GSK Romania, Heineken Romania, Denkstatt Group, Raiffeisen Bank, KazMunayGas, Lafarge Romania, Global Compact, Petrom, Orange Group, Siveco Romania, Sonae Sierra, Cosmote, etc. Most of these reports are based on the GRI G4 model, the international standard for non-financial reporting. The most important areas analyzed in these reports are: employees, environment, community, responsible products, etc.

4.2 Social responsibility performance evaluation

Evaluating the performance of enterprises from the perspective of social responsibility is difficult to achieve. Social responsibility assessment could be done through different social, human, environmental indicators.

As the world's first and most accepted global sustainability indicator (Dow Jones), the Dow Jones Sustainability Index. The annual analysis is based on a complex online questionnaire (80-120 questions). Calculation of the index is based on several criteria / dimensions: economic size: 33%, average size: 33% and social dimension: 33%.

Bircea (2015) draws attention to elements related to the CSR activity, already existing in the Financial Situations (annual expenditure on environmental protection). Bircea (2015) shows the monitoring of sustainable development at Romanian level, which is carried out with a set of indicators (46 indicators) structures according to the objectives of the National Strategy for Sustainable Development.

Another indicator is presented by Figge - Barkemeyer - Hahn - Liesen (2006), the Sustainable Value indicator. Sustainable Value measures the sustainable performance in monetary units. To do this, it uses the logic of financial analysis: an investment creates value if it results are higher than the value of the investment. Sustainable Value applies the theory of investment analysis for environmental and social resources too. To create value, the result of using environmental and social resources must cover the cost of these resources.

This paper provides a model of social responsibility assessment using indicators, applicable by all companies, regardless of their field of activity or size. The purpose of this model is to help smaller firms also develop their CSR report without requiring too much financial and human effort. The responsible behavior of businesses does not depend directly on their size. A small enterprise can behave more responsibly than a large enterprise and vice versa.

An analysis of the organization's responsible behavior could be done based on a set of indicators, including human resource issues, responsible products, the local community, the environment, etc (Table no.1).

Table no. 1 Indicators for social responsibility assessment

Group of indicators	Indicators
Indicators on human resources	Work conditions Number of disabled workers with low work capacity Fluctuation in the number of employees Benefits packages received by employees Occupational health Promotional Opportunities Number of non-motivated hours / absences motivated-unmotivated Respecting the human rights Number of hours used to prepare employees Number of complaints filed Number of work accidents
Indicators on commercializing responsible products	Healthy products Labeling of products Innovations
Indicators on the local community	Use of materials purchased from local producers Distribution of local products Open days possibilities Social actions Sponsorships, aids, support
Environmental indicators	Waste recycling Recycling paper Non-polluting production process Using consumables made from recycled materials (eg. paper)
Other indicators	Ethical behavior Transparency No complaints, negative reports submitted to the firm
Indicators on communication (to employees and society)	Number of hours used for communication

Source: own edited

The issue of measurement / measurability of these indicators emerge. For a fair assessment and analysis, the following should be considered:

- The social responsibility should not be marked by the size of the organization. So, the value of the indicators will be determined based on relative results (eg. number of employees with disabilities will be evaluated by their percentage in the total number of employees);
- Indicators or activities with zero value (if the indicator or activity is not present at the organization level, so there is no social responsibility in terms of that indicator) is negatively evaluated.

The assessment companie’s social performance can be made according to the following score applied to the results of the aforementioned indicators (Table no. 2).Tthe social responsibility fields that are not present in the enterprises are negatively evaluated, respectively the social responsibility activities are evaluated gradually and positive.

Table no. 2 Value of indicators

Percent	Value
0	-3
1 – 20%	1
21 – 40%	2
41 – 60%	3
61 – 80%	4
81 – 100%	5

Source: own edited

5. Conclusions

As I have mentioned, the recommended indicator group and calculation method is designed to help smaller firms with limited financial and human resources to prepare and make a CSR report. The model is a simple one, applicable to all economic agents, regardless of size, ownership, field of activity, etc. This model or elements of this model could be introduced in the Annual Financial Reports, which would provide better public information for the CSR business activity. Introducing the obligation of social (and environmental) reporting would certainly be of interest to the local community.

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