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CSR AND ENVIRONMENTAL REPORTING IN THE CZECH REPUBLIC AND ROMANIA: COUNTRY COMPARISON OF RULES AND PRACTICES

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
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ABSTRACT

This paper focuses on the development of corporate social responsibility, with special emphasis on environmental issues in two countries that have recently joined the EU: the Czech Republic and Romania. The article analyses the short tradition of Corporate Social Responsibility reporting in both countries and the current state of development, as well as its future perspectives. The paper also deals with the recent developments of environmental reporting in the Czech Republic and Romania, and plans to introduce some basics of environmental reporting into compulsory reporting statements in the Czech Republic. This is then compared it with country-specific approach in Romania. On the Czech side, the comparison is drawn from two short case studies of the Czech heavy industry sector. Similarly, in Romania, the approach is documented on companies from the energy sector and a major shipyard, representing the approach of Romanian heavy industry sector. We conclude that the standard of CSR and environmental reporting is based on the same principles in both countries, but the particular approaches differ. Non-prescriptive approach to environmental reporting should be adopted in the Czech Republic, similarly to other developed countries. Furthermore, in our opinion, more systematic regulatory approach may be adopted in Romania.

 *Corporate social responsibility, environmental accounting, sustainable development, Czech Republic, Romania*

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INTRODUCTION AND MOTIVATION

This article focuses on the development of corporate social responsibility (hereafter CSR), with special emphasis on environmental issues in two countries that have recently joined the European Union: the Czech Republic and Romania. The article analyses the short tradition of environmental and sustainability reporting in both countries and the current state of development. It also deals with recent discussions and development of environmental reporting in the Czech Republic, which has recently changed into “sustainability” reporting. In the Czech Republic the authorities plan to introduce compulsory part on environmental issues in financial reports. In Romania there is more country specific and holistic approach starting from the general framework outlined by the UN FCCCⁱ and EC frameworks.

On the Czech side, the comparison is drawn from two short case studies of the Czech heavy industry sector. Similarly, in Romania, the approach is documented on companies from the energy sector and a major shipyard, representing the approach of Romanian heavy industry sector. The paper documents that the standard of CSR and environmental reporting is based on the same principles in both countries, but the particular approaches differ. In our opinion non-prescriptive approach to environmental reporting should be adopted in the Czech Republic, similarly to other developed countries. On the other hand, more systematic regulatory approach is needed and may be adopted in Romania.

The term sustainable development appeared at the time when political and societal elite of the 20th century started discussing about the development of human population under the conditions of limited resources. The concepts of environmental reporting and sustainability are notions that have shaped in the academic literature relatively recently. Today’s entrepreneurs understand climate changes as a cost of doing business and at the same time as a challenge and opportunity to introduce new energy saving technologies and innovations that can contribute to solution of environmental problems.

The basic concept of social and environmental reporting is inspired by several streams of thinking: sociology, political economy, theory of organization and role of business in society. The book of Donella Meadows *The Limits to Growth* (1972)ⁱⁱ may be recognised as a seminal work in this area. This was the first warning piece on the sustainability of population growth. Her provoking essay dealt with the problems of growing human population and its conditions for sustainable growth on the planet with limited resources.

The Limits to Growth did not attempt to make exact predictions, but intended to illustrate warning trends and inform important policymakers and rulers of the

worlds finance about possible dark scenarios for the human population. When the report was written (the 1970s) the scientists did not make any new discoveries of resources. The assumptions about oil supplies, technological progress and resource utilization were soon overcome with new discoveries of resources and new changes in technology and resource utilization. The main message was that there are limits to growth and that resources are not unlimited. This idea framed much of the discussion since that time. Subsequently, 20 and 30 years after the initial report, the Club of Rome published revisions of the first report, explaining which subsequent events have supported the Club's assumptions.

The following report of the Club entitled *A New Path for World Development* and published in 2001 was written after the discovery of further renewable reserves. The report discussed the current problems of the human population. The summary is in the following table.

Table 1. Main problems of sustainable development

<p>1. <i>Environment and Resources:</i> Climate Change, Energy Security, Ecosystems and Water.</p> <p>2. <i>Globalization:</i> Distribution of Wealth and Income, Employment, Economic Restructuring Trade and Finance.</p> <p>3. <i>International Development:</i> Demographic Growth, Environmental Stress, Poverty, Food Production, Health and Employment</p> <p>4. <i>Social Transformation:</i> Social Change, Values, Culture, Identity and Behaviour</p> <p>5. <i>Peace and Security:</i> Justice, Democracy, Governance, Solidarity, Security and Peace.</p>

(Source: http://www.clubofrome.org/eng/new_path/CoR_Flyer_090605.pdf
[accessed on 15.1.2011])

The rest of the paper is structured as follows: section 2 discusses some seminal literature in the area. Section 3 sets broader social and political context of corporate social responsibility and ecological reporting. Section 4 gives reasons why companies and countries should be involved in social and environmental reporting. Section 5 characterizes environmental and social reporting in the Czech Republic and Romania. This part provides a comparison of the rules in the two countries. Section 6 compares the practice of social and environmental reporting of the two countries, based on selected case studies in environmentally demanding industrial sectors. Section 7 concludes and suggests topics for further research.

1. LITERATURE REVIEW AND USED METHODOLOGY

The first concern about the depletion of natural resources and further existence of exponentially growing population was articulated by the Club of Rome. Another important theme in this discussion was brought up by E.F. Schumacher in his book of essays on alternative technologies, *Small is Beautiful*, which was published shortly after the Club of Rome's initial reportⁱⁱⁱ. The major argument of the essays was based on the idea that resources are not unlimited and that living of non-renewable resources is like living off capital rather than income. Schumacher's philosophical position is that modern economics erroneously depicts consumption as the ultimate end of human activity. Schumacher came not only with criticism of the current practice, but with his contribution a new topic has arisen – environmentalism as an alternative social philosophy and also theory of innovation as the major driving force for human population.

1.1 Sustainable Development and Environmental Issues

Environmental and socially responsible investment is narrowly linked to the term sustainable development, which has been at the forefront of academic interests relatively shortly. Community and political representatives ascertain that life is dominated by new organisational structures – enterprises. Nowadays, companies influence the life and their role changes from just plain employers to much more important and influential players.

Corporations dominate all aspects of our lives. Their power affects the quality of life, food, water, gas, electricity, seas, rivers, environment, schools, hospitals, medicine, news, entertainment, transport, communications and even the lives of unborn babies.

... Unaccountable corporate power is damaging the fabric of society, the structure of families, the quality of life and even the very future of the planet.

(Mitchell and Sikka, 2005:2)

This, in parts a bit catastrophic, scenario has its predecessors in the times of Great Industrial Revolution in the 18th century, when the intellectual community of Great Britain was involved with the relation of rising industrial enterprises and their relations to employees, e.g. Thomas Carlyle, Elizabeth Gaskell or Benjamin Disraeli. Much later, in the early 1990s, the catastrophic scenarios of society risk emerged e.g. Beck (1992 and 1999) or Giddens (1991).

Sustainable development represents a general theory of a firm, a concept where the company is accountable to a whole spectre of different participants – stakeholders, as described by E. Freeman in his piece *Strategic Management: Stakeholders' Approach* (1984). Crisis scenarios and problems of sustainable development and the role of business in society are the topic of further works on CSR and their social and environmental impact on the life of society.

1.2. Methodology

The methodology used in this paper is principally based on qualitative analysis and comparative case studies of companies in environmentally demanding sectors. The required information and data was obtained primarily through desk research and study of relevant documentation. Prior to articulation of our research question, a discussion was carried out with representatives of the Ministry of Environment in the Czech Republic and with a representative of the Ministry of Environment and Forests in Romania. Our preliminary findings were combined with the discussion with academics involved in the field of environment and environmental reporting.

Literature search and search in documents covering laws and environmental management regulations was performed. The work was accompanied by a thorough literature research of norms and regulations in the two respective countries. Detailed mapping of baseline knowledge and collection of necessary data from identified study literature allowed us to set up theoretical framework for our further research.

The case studies of selected companies in similar industries allowed us to evaluate the approach to regulation in this area in the two countries and map the fulfilment of local rules and regulations, as well as identify the gaps for adjusting current regulations and drafting further ones.

The results are based primarily on our analysis and synthesis of the identified issues, which allowed us to compare, explain and generalise the findings and draw conclusion of the study. Furthermore, we have used the findings of the study on CSR and marketing in selected countries of Eastern Europe, carried out by professional consultancy firm Braun & Partners Network, to verify our findings on CSR. The study focused on marketing and CSR in four selected countries in Eastern Europe.

2. BROADER SOCIAL AND POLITICAL CONTEXT OF CORPORATE SOCIAL RESPONSIBILITY AND ENVIRONMENTAL REPORTING

Responsive and challenging activities of various lobby groups and ecological movements are the inherent consequences of all environmental activities of industrial companies. Lobby groups attempt to monitor and moderate the situation in industry and in ecologically demanding processes, such as the extraction of non-renewable resources, chemistry or power generation. Company managements strive to persuade environmental activists to change their focus and/or mitigate the impact of their involvement, while scientists and innovators see the conflict as an opportunity for further development. Environmental and social issues are clearly a

hot topic these days. Table 1 summarizes the position and interests of the players in the debate about social and environmental issues.

Table 2. Key players and interests in the debate on environmental and social issues

Player involved subject	Interest
Government of a more developed country	Maintenance of competitive position; projection of party esteem in public opinion
Government of a less developed country	Economic growth; equal rights in decision making
Environmental lobby groups	Protection of the natural world; education of the public
Large corporations	Protection of shareholders' interests; maintenance of market position
Industry representative groups	Enhanced status of the industry; control over member behaviour
Regulators	Control of firms in accordance with legislation
Public opinion(s)	Information on threats; protection and security; Maintenance or improvement of living standards
Scientific community	Objective conclusions; dissemination of true picture; resourcing and permission to continue to conduct research
International organizations	Cross-boarder collaboration

Source: Griseri and Seppalla (2010: 84)

The table above highlights the different organizational strategies in relation to environment and social issues as well as portraying the dynamics. As the balance and power of different interest groups changes, the limits of development modify. As the position of various lobby groups develops, arguments in favour of specific practices change. Additionally, as different financial sponsors encourage research in different areas, the opportunities for new technologies open. And finally, as the governments and their international policy mature, the impact on industrial enterprises motivates companies to behave socially and environmentally responsibly. This has given rise to socially responsible investments, which tend to pursue long-term goals (Solomon, 2007).

3. WHY SHOULD COMPANIES AND COUNTRIES BE INVOLVED IN SOCIAL AND ENVIRONMENTAL REPORTING?

Environmental and social issues have impact on a broad range of issues concerning the life of companies and societies and influence on all sub-disciplines of accounting and information systems in company.

“... Environmental accounting and sustainability accounting impact all the various sub-disciplines of accounting from the way you would create an accounting information systems, where...[the company is] ... collecting

data for decision making and reporting in the firm; to the internal management decision-making process, where management accounting comes in; to the external reporting, which is the financial accounting arena; and then there's also the auditing area of accounting, where independent auditors come in and audit a firm" (Lockhart, 2007)

The environmental issues span across all disciplines. Furthermore, the accounting profession cannot ignore environmental issues; and in a sense, environmental reporting still represents a predominantly alternative approach. According to the conventions, the company will account for a case if there is an economic transaction, and if there is not, there will not be any record. The companies and societies are acting according to the concept that 'more profit is better' and 'more growth is better'. That is, in a sense, a moral statement. It implies that other cases than economic issues are not economically and socially important.

In our view, if a company is impacting the environment, either positively or negatively, there is a potential reporting implication. Nowadays, what is used is the main-stream, conventional accounting model, but we must understand that it is not the only system and the perfect system for recording transactions and business issues in general. An organization that has a particularly significant negative impact on the environment will generate profit, but nowhere in the calculation of profit are the externalities, the social costs of the environmental damage that the company has done, unless there is a mechanism to bring those costs in and obligation to follow such rules. Nowadays, some reporting initiatives are performed on voluntary basis, mainly by big companies. Some organizations are required to report so-called contingent liabilities, if the management thinks there may be a liability resulting from current activities at some point in the future. However, the companies are required to report, but they're reluctant to report bad news unless they really have to. For illustration see the recent BP and oil disaster in Atlantic (see: Deepwater Horizon)^{iv}.

However, the community and businesses need to look at the impact of production and commerce on the environment and on sustainability issues. And that is what businesses and politicians need to promote. Recently, there were some significant changes introduced in reporting standards e.g. Sarbanes-Oxley Act, 2002 in the US.^v Companies must report contingent liabilities. This, however, concerns mainly financial instruments and contingent claims in financial reporting - if the management of the company thinks there will be some important obligations in the future stemming from current activity. Even though the Act was drafted after the major accounting scandal in 2002 and concerns issues of financial fraud we think that similar measures could and should be applied for cases of environmental danger. Furthermore companies tend to report only reluctantly and they respect the rules rather than spirit of the act (see Solomon, 2007: 63 and further).

In general, profit is perceived as being a good achievement, but taking into consideration all environmental implications of corporate activities and sustainability issues and their importance, we can see that profit is not necessarily always good and growth is not necessarily always the best result that a company might accomplish, if it disregards the environmental impact. The lifecycle of products and services contains both apparent and hidden effects on environment. Monitoring of hidden costs allows companies to improve the pricing policy and improve investment decision-making of long term projects that are in accordance with long term goals of sustainable enterprise and long term viability of the firm. The basic rule is that all processes and their costs need to be measurable, because only that what can be measured can be assessed and evaluated. For this reason, the companies ought to formulate measurable and sustainable aims that will lead to achieving environmentally neutral processes and achieving long-term sustainability.

Each enterprise should prepare regular reports on sustainable development and reports on corporate social responsibility, which serve investors for their decision making. This way, the public has an opportunity to ascertain how the company performs and how it attains its sustainable potential (Lockhart, 2007). Based on this knowledge, the investors can decide on investments and financial support of particular enterprises or ventures. In today's investment community, there is a growing trend of socially responsible investing SRI, when managers of large investment funds and pension funds decide about investments on the basis of whether the target investee firm behaves ecologically and socially responsibly (Salomon, 2007: 109 and further)

The current accounting system does not reflect the full economic value of the natural resources that are used in corporate production. The first attempts to reform the accounting system to reflect this value occurred in the 1950s. According to the basic principles of environmental accounting, it is necessary to reflect the full cost of environmental protection.

“Expenditures to protect the environment from harm, or to mitigate that harm, cannot be identified from the data in the accounts. Such expenditures include the costs incurred to prevent environmental harm, such as pollution control equipment purchased by factories or catalytic converters in cars. They also include the costs of remedying that harm; medical expenses, replacement of property destroyed in landslides caused by deforestation, or drinking water filtration required because intake water is highly sedimented. These expenditures are already included in the income accounts, along with all other intermediate or final consumption. However, they cannot be disaggregated to highlight the costs incurred to prevent or mitigate environmental degradation.”

Definition of Green accounting by The World Conservation Union^{vi}

According to the current practices, the data is not organized in a manner that would highlight the cost of prevention of environmental degradation. Growing importance of environmental agenda and problems of sustainable development leads companies, mainly large industrial ones, to address the problems of their impact on the environment. The first reports of this kind started to appear in corporate annual reports in the 1980s. Reporting of this kind, however, has predominantly voluntary character.

4. THE COMPARISON OF RULES: ENVIRONMENTAL AND SOCIAL REPORTING IN THE CZECH REPUBLIC AND ROMANIA

4.1 Environmental and Social Reporting in the Czech Republic

The Ministry of the Environment of the Czech Republic defines its views on ecological accounting and reporting in the following way: In the Czech Republic, these issues are recognized on both microeconomic and macroeconomic levels. In 2005, the strategy of sustainable development was approved at the governmental level; this intertwines environmental reporting with social issues into so called system of sustainable development.^{vii} Using this system, the state can assess their efficiency and material effects of legislative measures and voluntary measures used by individual companies and gives recommendations which companies can use for assessment of sustainable developments.

“Reporting on sustainable development on the enterprise level – i.e. the microeconomic level is a tool, which helps the decision making of company management. It helps to reveal and assess the economic effects of cautious approach to environment while respecting the social aspects of business activities. This information serves not only the corporate management but it is also useful for interested external parties (e.g. shareholders, investors, creditors, state agencies, business partners and general public). The information provides clearer picture of how is the environmental profile and social efficiency reflected in company’s economic result and how does it contribute to its success. It seems very effective to interconnect the system of sustainable reporting with managerial accounting in the company, because they are both useful parts of communication with external bodies not only in the area of corporation approach to the environment but also in corporate annual reports and reports on corporation sustainable development”^{viii}

So far, the policy of the Ministry of Environment relies on voluntary corporate reports that deal mainly with health, safety, and sustainable development. The ministry defines accounting of sustainable development on macroeconomic level. This consists of information on the current state of environment in connection with the economic performance of the state. On the company level, the reporting concentrates on fulfilling certain environmental goals, so far on voluntary level. In our opinion, the voluntary character of environmental reporting should remain,

similarly as it is in other developed countries, and the Ministry of Environment should prepare recommendations and perhaps some more detailed guidelines, in accordance with the worldwide development, taking into consideration and respecting differences in industrial sectors.

The Czech Ministry of Environment wants to include some elements of environmental reporting into compulsory company reports. One of the suitable tools for environmental reporting is the Material Flow Cost Accounting. The method was first developed in Germany and later modified in Japan. Material Flow Cost Accounting focused on the reduction of costs, having strived for significant productivity and environmental improvements through innovations in the manufacturing process as described by Shaltegger and Burritt (2000).

At present, one of the most important activities in the area of environmental management accounting is the enforcement of new ISO standards. The activity was initiated by Japan in recent years and served as the basis for successful commencement of works on the preparation of a new standard. Environmental costs consist of all costs related to environmental damage and protection. According to Burritt (2004: 13), “EMA is concerned with accounting information needs of managers in relation to corporate activities that affect the environment as well as environment-related impacts on the corporation“. The complete title of the proposed standard is “Environmental Management – Material Flow Cost Accounting – General Principles and Framework“. The standard is included in the group of ISO 14000 standards and has already been assigned with the denomination ISO 14051.

In shaping the new standard, long discussion was dedicated to what is included in material flows. In spite of the fact that at first sight the methodology takes account only of material, material flow cost accounting includes also natural resources, incl. water and also the used energy. The discussions also covered the types of businesses, which the methodology is intended for. For the time being, the prevailing opinion is that no organizations should be excluded from application.

Future plans for inclusion include the preparation of a new standard, “Environmental Management – Material Flow Cost Accounting – General Principles.” Discussion has shown that new standard will give a number of impulses for future use of material flow cost accounting. This particularly means the implementation of material flow cost accounting for small and medium-sized enterprises. So far, mostly large enterprises were concerned with these issues. Furthermore, material flow cost accounting should be expanded also to supply chains.^{ix}

4.2. Environmental and Social Reporting in Romania

Starting Romania 1989, various institutions dedicated to environmental concerns were set up within the executive and legislative structures (ministry, parliamentary committees), and the first acts of primary and secondary environmental legislation were adopted. At an early stage, there were some sustainable development principles that had been incorporated in public policies. This came as a result of the specific obligations undertaken by Romania under the declarations and conventions that were developed following debates within the UN and its specialized agencies. In this regard, it is important to mention that Romania was the first European country to ratify the Kyoto Protocol at the United Nations Framework Convention on Climate Change (UN FCCC).

According to the valid legislation, the Ministry of Environment is a “specialized authority of the central public administration, with juridical rights, in direct subordination of the Government”. The Ministry of Environment is assigned as Management Authority for the Sectorial Operational Programme for environment infrastructure.

The mandate of the Ministry of Environment is “to elaborate the Government strategy for environment protection and water management and to coordinate its implementation on the national level, in order to ensure sustainable development”. The Ministry of Environment and Forests provides the framework for assessing the social and environmental impact. For example, in 2010, the Ministry of Environment and Forests, the Ministry of Agriculture and Rural Development, the Ministry of Interior and the Ministry of Regional Development and Tourism^x, issued the joint Order no. 274/2010, approving the Methodology related to environmental impact assessment for public and private projects.

Romania’s concern for environmental protection is displayed through the prevention, limitation and elimination of some effects that have a negative impact on the environment. In 2001, the Environmental Guard was established (Caraiani *et al.*, 2010). It is responsible for monitoring the environment, the prevention and the banning of contraventions. Romania has also implemented the EC Legal Framework for Green Public Procurement (GPP) (DIR. 2004/17 & 18/EC) on the national level through the Emergency Governmental Ordinance no. 34/2006. The Ministry of Environment in partnership with the Norwegian Ministry of Environment runs the project entitled: Developing emergent ecological markets in Romania, between July 2009 – April 2011 (with the objective to inform 400 producers, retailers and the scientific community about the ecological criteria for 9 categories of products, services and works and to train 400 public procurers on GPP issues in all 8 regions of Romania).

Between 2007 and 2009, on the national level, the Ministry of Environment and Forests, as the competent authority for applying the provisions of the Regulation

no. 761/2001, which allows voluntary participation by organizations in a Community eco-management and audit scheme (EMAS) (CSD-18, 2000). The Ministry has organized several events that focused on the training of the institutions involved in applying the provisions of the EMAS Regulation, “facilitating access to information on the main components and objectives of EMAS and the advantages of the EMAS registration which lead to environmental and business performance”.

A very important aspect is that Romania^{xi} endeavoured to finalize its own revised National Sustainable Development Strategy and present it to the European Commission before the end of 2008. The first progress report on its implementation has to be presented by June 2011. Implementing the National Sustainable Development Strategy has become a priority for policy action in the current Government Programme 2009-2012, and the Ministry of Environment and Forests has the responsibility for following up implementation of this strategy.

Corporate sustainability reporting remains a voluntary exercise on the national level.

In March 2007, the foundation Forum for International Communications – through its program CSR Romania – published the results of a survey carried out on-line between February and March 2007 on 250 representatives of corporate socially responsible companies acting within the Romania business environment (Iamandi and Filip, 2008). The study revealed that CSR is not completely understood in Romania and it is often associated with a corporate image campaign or a promotional program and relevant information regarding CSR strategies, quantifiable social or environmental objectives and corporate policies influencing the different groups of stakeholders is lacking.

The study revealed that there is a need for social reporting in the Romania business environment and the fact that social reports are not credible CSR instruments because there is a tendency to amplify the positive achievements to attract potential benefits. At the same time, we should mention that Romania companies lack the experience of developing CSR reports and do not sufficiently assume the necessity of measuring the effects of CSR actions, as confirmed by research of Braun & Partners Network on marketing and CSR.

Ienciu *et al.* (2011) carried out a research between 2006 and 2008 focused on the evolution and the quality of environmental reporting across Romania companies listed on the Bucharest Stock Exchange. The research resumed to 46 companies with environmental impact. The findings of the research showed that:

- Romania companies provide general information regarding their environmental impact, information which is incomplete and irrelevant to the users

- Romania's accession to the EU, the implementation of certain European environmental policies and introduction of new European programs for financing environmental protection activities (the structural funds) led to positive evolution of environmental reporting
- As for the type of information provided, Romania companies restrict themselves to supplying general information (environmental management, environmental policies, environmental targets and objectives), neglecting information related to environmental risk, costs and obligations
Annual reports represent the main source of information for Romania companies

An important finding of the study is that on the national level, although an increase of environmental reporting between 2006 and 2008 can be noticed, the majority of environmental information provided by the Romania companies is incomplete and irrelevant.

A social report should be in alignment with the corporate strategy, as well as keeping track of the progress made in terms of quantifiable objectives set if it wants to be credible. For Romania companies, there is a real need for real CSR programs instead of philanthropic initiatives. Many Romania companies engage in philanthropic initiatives and become too concerned with building a positive image and emphasizing positive results. Nowadays, what companies need is developing programs in Romania that have quantifiable objectives, budgets, evaluation methods, as well as performance indicators.

5. COMPARISON OF PRACTICES: LARGE CZECH AND ROMANIAN ENTERPRISES AND THEIR SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

On the Czech side, the reports on sustainable development and reports on corporate social responsibility are primarily the domain of large enterprises. One must not forget the additional cost of environmental reporting; this is certainly one of the reasons why SMEs avoid such reports, unless requested specifically by their shareholders. In this paper we summarize the main features of the approach of Czech energy giant ČEZ, a.s. and major heavy manufacturing and steel producer Vítkovice, a.s.

Social reporting plays an important role with regard to the contribution to building companies' credibility in the eyes of the stakeholders and the whole community. Braun & Partners Network^{xii}, the first consultancy group on marketing and CSR strategy from Central Europe, conducted a study regarding companies' degree of transparency from the 4 countries where the group is acting in Central and Eastern Europe, namely Romania, Hungary, Bulgaria and Poland. The methodology used was aimed at evaluating the performance and social responsibility reporting, being

applied to the most profitable companies in Romania, Hungary, Bulgaria and Poland. For the Romanian case, the first 25 companies included in the “top 100 most valuable companies in Romania“, which appeared in the “Ziarul Financiar” Journal, were taken into consideration. The study is based on the information made available to the public and the stakeholders. It is important to mention that the rating methodology uses Accountability standards, as well as GRI (Global Reporting Initiative) indicators, companies’ principles and best practices of social and environmental responsibility. The results of the study were published in 2009 and revealed that Romanian companies obtained the lowest scores for economic responsibility, human resources and the company’s relation with its stakeholders. On the other hand, their websites are overall well-designed with several weaknesses, such as the fact that websites in general do not provide relevant information about programs dedicated to stakeholders, supplier-relationship, or include insufficient information about human resources. For social reporting under GRI international standards as far as Romania is concerned, this is not yet a practice embedded in the local CSR culture.

Good CSR 2010^{xiii}, the reporting program developed by B&P Braun&Partners, is intended to inform all stakeholders, via short sustainability reports presented, of the relevant data regarding economic, social and environmental performance of companies. In 2010, there were 4 Romanian companies that published their reports on CSR, namely Dona Pharmacies, Henkel, Porsche Romania and Romstal. Henkel Romania and Porsche Romania were in their first year of type “C“ CSR reporting under the GRI international indicators related to non-financial performance, communicating their CSR practices and achievements to both employees and external stakeholders.

On the other hand, it is important to shed some light upon the difference between the two concepts, namely social reporting and CSR. Reporting refers to the whole process of evaluation and communication of the results, whereas the CSR report is the outcome, the document that presents the results of the reporting process. Unfortunately, even nowadays Romanian companies do not fully understand what social reporting really means and what does it involve, and believe that issuing a CSR report is equal to social reporting, when the two concepts are quite different, as mentioned before. This is therefore an important issue that has to be addressed in the future. At the same time, there is no legislation in the area of social and environmental reporting in Romania that requires companies to submit separate reports or information related to environmental impact, which would be very useful especially to companies that are acting in highly-polluting industries.

However, in our view, it is important that prior to creating a regulatory framework for environmental reporting in Romania, a framework for creating social and environmental awareness among companies acting in the Romanian business environment should be outlined as well as providing a certain type of “learning

instrument” for Romanian companies’ view on the process of social and environmental reporting.

5.1. Social and Ecological Responsibility of ČEZ Group

ČEZ Group^{xiv} is one of ten energy giants in Europe from the point of volume of energy production and the number of users. Moreover, ČEZ represents one of the biggest energy traders. ČEZ Group consists of almost 120 Czech and foreign companies. Environmental and social activities are an important part of firm’s philosophy labeled “We help where we operate“. Activities span several areas. For example, ČEZ recently introduced a new initiative entitled “ČEZ Against the Crisis”, which helped the Czech economy and ČEZ Group customers to mitigate the impacts of the economic crisis. This initiative consists of three parts:

Table 3. ČEZ Against the Crisis

<p>On February 17, 2009, ČEZ Group announced its “ČEZ Against the Crisis” initiative, outlining its contribution to protecting customers and the entire national economy of the Czech Republic in the time of economic crisis. The initiative was comprised of three parts:</p> <p><i>1. More job opportunities from employers</i></p> <p>In the years 2009–2010, ČEZ Group will increase planned capital expenditures for generation and distribution of electricity by over CZK 5 billion. During this period, ČEZ, a. s. will spend CZK 4 billion more than originally planned to upgrade its power plants and make them more environmentally friendly. CZK 1.1 billion more will be spent on renewing and bolstering distribution grids in the same period. In this manner, ČEZ, a. s. will make it possible to newly create or preserve 5,600 jobs at existing and new suppliers.</p> <p><i>2. Freeing up cash for small businesses</i></p> <p>ČEZ Prodej, s.r.o. has offered all small businesses the possibility to move back the due date of advance electricity payments by 30 days. Instead of 12 monthly payments in 2009, they paid only 11 and settled the difference when paying the final invoice in 2010. By December 31, 2009 a total of 3,393 businesses had taken advantage of this offer.</p> <p><i>3. Insurance of electric bill payment in the event of job loss</i></p> <p>ČEZ Prodej, s.r.o. took out insurance against non-payment of electric bills in the event of job loss for the benefit of all households in the Czech Republic those are its customers. Everyone who lost their job and registered with the Labour Office after March 1, 2009, was relieved of having to pay three monthly advance payments for electricity, since the insurance company paid the bills in their stead. The basic condition was at least six months of prior employment and timely payment of electric bills in the past year. By January 31, 2010, this offer had been utilized by 25,227 households with 28,014 connection points, and the insurance company paid out a total of CZK 120.4 million in benefits.</p>

Source: ČEZ Annual report (2009: 159 and 160)

Other recent activities in the area of corporate responsibility of ČEZ are:

Social Policy

ČEZ Group's social policy in the Czech Republic focuses on preserving labour peace. Monetary and non-monetary employee benefits are treated in collective bargaining agreements entered into between employers and labour organizations – in ČEZ, a. s. for the years 2007–2014 and in the integrated subsidiaries for the years 2008–2014. In addition to wages, ČEZ Group's social policy in the Czech Republic also includes a shortened work week of 37.5 hours, an additional week of paid vacation beyond the requirements of the law, paid personal time beyond that required by law, personal accounts for rest, relaxation and health of employees and their family members, electricity bill contributions, Supplementary Pension Insurance contributions, life insurance contributions, meal contributions, healthcare contributions and, in extraordinary cases, one-off social aid as well. The basic principles of ČEZ Group's social policy also apply to employees working for our international acquisitions; here, however, the social policy is pursued in a different legislative environment and in some cases long-term agreements signed between local labour unions and the previous employers must be taken into account. Benefits for employees of international companies vary from country to country and company to company. Typically they include meal vouchers, contributions for employees' holidays, expanded medical care, and support upon birth of a child.

Regional policy

On May 25, 2009, ČEZ Group started an information campaign to increase awareness among the residents of regions, areas, and individual towns and cities of volunteer activities and partner projects in their area. The information includes the location of the closest Orange Playgrounds, Orange Fields, bikeways, and hiking trails, as well as information on specific support for local healthcare facilities and ČEZ Group Green Energy contributions for projects in the local area. ^{xv}

ČEZ Group is very active in the area of corporate social responsibility and environmental responsibility. This is given also by the nature of ČEZ production and by its thoughtful and holistic approach. ČEZ works actively with own employees and with regions.

5.2. Social and Environmental Responsibility of the Group Vítkovice, a.s.

Vítkovice Machinery Group^{xvi} is the leading group in the area of steel production and in Northern Moravia. The group is an important exporter of steel products and a wide portfolio of products and services. The production is technologically demanding and has massive impact on the environment. The company tries to reduce the impact on environment, in recent years however the effort was made difficult because of worse economic conditions. "The leadership is expected in the field of production and commercial activities, but also with new results effort on

the field of science and new technologies and also in the field of examination of new technologies and saving technical, architectural and architecture heritage.”^{xvii}

The year of 2009 witnessed the deepest economic crisis since the 1930s. The firm’s corporate responsibility crystallized. “Vítkovice changes the architecture, cultural background and social atmosphere in the whole region of Ostrava. The important role was highlighted by its contribution of Ostrava’s application to become the European capital of culture in 2015, announced by the EU”.^{xviii} In 2009 Vítkovice set up the biggest private secondary school in the district of Ostrava. This is a necessary step for stabilization after the breakdown of secondary education in the 1990s and, at the same time, it will form the required base of qualified employees for the company itself and for the region of Northern Moravia and Silesia.

Vítkovice’s strategy is based on several cornerstones:

- Effective employment of production base and development of engineering,
- Development of innovation, collaboration with universities and academic institutions,
- Use of modern production technologies, information technologies, green technologies and also nanotechnologies,
- Cooperation with the region.

Priority Green Technology: in the area of careful approach to the environment, the group is converting all transportation to natural gas basis (CNG technology); the company builds biogas stations for the production of heat and for fuelling vehicles. It has also built a cleaning station and developed trailers for the transportation of large amounts of gas for the case of production or distribution breakdowns. In this way, the transport could be converted to gas fuelling and become environmentally neutral or even friendly. In the next period, the company plans to replace primary resources with recycled metallurgic waste. The main priorities for the next period are environmental systems, development of laboratories and testing, and projects of gasification of transport and further environmental projects.

Vitkovice Holding is also very active in the area of environmental responsibility and social responsibility. This is determined by the nature of its technology and by holistic approach to environmental and social issues.

5.3. Social and Environmental Responsibility of Energy Group ČEZ Romania

ČEZ Group is a dynamic, integrated electricity conglomerate based in the Czech Republic and with operations in a number of countries of the Central and South-Eastern Europe and Turkey. Its principal businesses encompass generation, distribution and sale of electricity and heat as well as coal mining.

In the case of ČEZ Group in Romania^{xix}, the social and environmental reporting is performed via the company’s website, with relevant information provided in the

company's Annual Report. They do not provide, as it is the case of many Romanian companies, a separate Report on Social and Environmental Responsibility. In the Annual Report issued by ČEZ Group in Romania, there are two sections emphasise social and environmental responsibility, namely "Environmental Protection" and "Donations and Sponsorships". Employees are of great concern for the company, as it manages to take all the necessary steps towards ensuring good work conditions, employee motivation as well as providing equal treatment to all their employees.

As for environmental protection, ČEZ Group in Romania places special emphasis on minimizing the negative impact of their activities on the environment. This is done through:

- the Environmental Management System (EMS) - to make sure that, in all their operations, they comply with legislative requirements and address any environmental impacts of the operations
- by focusing on their employees, they seek to acquaint employees with environmental issues and climate change
- by focusing on facilities and operations in protected natural areas, to reduce environmental impact, as well as changing the way these areas are managed, renewed and developed (for example, the frequent use of insulated power conductors)
- in the procurement operations, the equipment is maintained and managed in compliance with applicable environmental protection legislation (related to the use of PCBs and other hazardous substances)
- monitoring the equipment used in order to prevent pollution and discharge of greenhouse gases (due to the fact that sulphur hexafluoride is present in some equipment)

The group's main objectives are related to the reduction of the amount of waste generated, ensuring its reuse and recycling, increasing efficiency of operations, reducing the use of natural resources as well as pollution and expenses. An important aspect that should be emphasised is the fact that during 2009, the company did not register any environment-related complaint or environmental incident. The companies that are part of ČEZ Group in Romania also make efforts to set up an organized system with the objective to improve the working conditions such as organizing a Committee for Health and Labour Security, putting in place specific instructions, technologies and norms, or planning the process of preventing professional risks. For ČEZ Group Romania, employees are the most important asset. The company's staff policy sets to ensure the modernization of human resource, creation of a certain level of employee participation in results and proper motivation for the requirements of the current stage of development. In this respect, starting with January 1st, 2010, the Board of Directors of ČEZ Distribuție approved the implementation of Performance Bonus for all employees within the company.

By doing this, the employees receive a clear set of goals to aim at and it also improves their degree of understanding of what they are expected to provide.

The company also provides an employees' equal-treatment policy, by complying with the principles regarding non-discrimination that are set forth in Collective Labour Agreements and Internal Regulations. The Collective Labour Agreements stipulate that "both upon employment as well as upon the settling and granting of the salary, it is forbidden any discrimination on criteria of sex, sexual orientation, genetic characteristics, age, national appurtenance, race, colour, ethnic, religion, political option, social origin, handicap, situation or family".

A very important aspect when it comes to ČEZ Romania's employees was the fact that several measures were taken into consideration for addressing the social impact of reducing the number of employees, such as payment of severance pay to the people who were laid off, in accordance with the Collective Labour Agreement and offering support by the Human Resources Division – for example advising employees in finding a job, information about the labour market and job evolution or professional guidance.

During 2009, ČEZ Group Romania initiated important partnerships, such as:

- Earth hour in partnership with Ion Mincu High School from Slatina
- Sport play ground arena in partnership with Slatina City Hall
- Forest Month - 2009 in Teleorman and Dolj counties - planting over 400 trees
- Summer with student flavour festival, Gorj
- AIESEC main partner on four important projects:
- World Citizenship (April - June 2009)
- Learn to Change the Future (July - August 2009)
- Students in Corporate (November - December 2009)
- Youth Academy (January - March 2010)
- Musical Craiova Festival - November, Partnership with Oltenia Philharmonic from Craiova (tickets for the employees)
- WASHI Karate Sports club - sponsorship for the team along 2009 (continuation from 2008). Competitions where awards were obtained in 2009: Regional Phase Wallachia area (March 2009), Cluj Napoca National Championship (May - June 2009), Poland European Championship (June 2009), Bucharest Champions Cup (December 2009).
- Tulip Symphony - partnership with Pitești City Hall

Referring to the Group acting in a socially and environmentally responsible way, it is necessary to mention, in this context, the two important awards received by ČEZ Romania in 2008 and 2009, namely "The award for the most significant projects assumed in the sector of energy in the year 2008 – Finmedia" and "The award for the category Policies, practices and projects regarding the environment protection", at Romania Green Business Gala 2009.

5.4. Responsibility of Heavy Machinery Group Stx Ro Offshore Brăila (Romania)

STX Europe is an international shipbuilding group that aims to be the leading builder of cruise and offshore vessels. The group^{xx} consists of 15 shipyards located in Finland, France, Norway, Romania, Brazil and Vietnam, with nearly 16 000 employees.

Health, safety and environmental concerns represent a strategic priority within the group and the company makes significant steps to ensure greater workplace safety through:

- Viewing preventive measures as a key priority for the group
- Building work culture based on employees awareness regarding health and safety issues and pro-activity with respect to the workplace and the environment

STX Europe's activities have a limited environmental impact^{xxi}. The main environmental impacts are related to the use of resources, energy and transportation. Environmental status reporting is an integral part of the company's annual reporting. The company is evaluating and adopting environmentally beneficial improvements in production processes, alternative materials, and services. At the same time, the group aims to promote open communication on environmental issues with employees, neighbours, public authorities, and other interested parties.

The Romanian shipyard's approach to managing social and environmental issues focuses mainly on CSR activities targeting the community and making sure that prospective employees are properly trained before they are actually given a functional role within the organization. In 2006, the company set up two foundations, namely STX Scholarship Foundation and STX Welfare Foundation. The organizations offer scholarships and provide social assistance services. In Romania, the two foundations are working on a continuous basis. STX RO Offshore Brăila^{xxii} development strategy also includes the concern for training new generations of shipbuilders STX Europe - Braila Shipyard.

The company established collaboration with "Anghel Saligny" high-school in Brăila in order to provide students with the necessary skills that would be required if later employed by the company. In this context, within the past 3 years, STX RO Offshore Brăila managed to offer 288 monthly scholarships for the students that did an internship. The students wishing to do an internship within STX Europe - Braila Shipyard are also given access to the school workshop, one of the best equipped training centres in the country. At the same time, focusing on members of the community in need, the company offered material support for schools and high-

schools in Braila, which consisted of fittings and other gifts such as personalized backpacks, pens or pendants.

The company's focus on the community is directed on one hand towards the prospective employees (targeting high-school students) and on the other hand towards acting socially responsible by offering donations to people and institutions in need.

As for social reporting, little information is provided on the website regarding the initiatives the company undertakes, such as CSR initiatives or type of projects that they are involved in or might approach in the near future to address key stakeholders. Most of the information can be gathered either from the company's newsletter or other sources such as brochures or different studies on CSR focused on STX RO Offshore Brăila.

CONCLUSIONS AND FUTURE RESEARCH

The corporate reporting process normally consists of two phases: the accounting or measurement process – evaluating all relevant data useful in measuring the company's social and environmental performance against specific indicators and the auditing process – related to assessing the information in the report. Among the drivers that determine companies to report, one could mention shareholder and stakeholder pressure, legal compliance, competitive advantage and public image.

As for the current state of development of social and environmental reporting in the Czech Republic, one can observe that this initiative is principally driven by the striving for standardization, coordinated by the Ministry of Environment. Nowadays corporate environmental reporting is motivated by the tendency to include the environmental problems into sustainability reporting, which covers a wide area of corporate performance and should also include economic and social aspects. Environmental and social reporting on company level should also bring some benefits to the companies in question. One aspect is the quantification of the full costs of corporate activity and finding gaps in processes and material flows. This approach, which is close to managerial accounting methodology, is very demanding on internal informational processes. However, there is pressure from the ministry to introduce special environmental standards as a compulsory part of official company reports in the Czech Republic. Nevertheless, these attempts have been around for some time and so far only voluntary reporting is taking place.

Apart from this governmental effort, there is also the specialized non-governmental agency CENIA, which aims at publicly available environmental information and facilitates creation, collection, validation and reporting the cross-media environmental information to support better sustainability and environmental

policies. This agency develops and manages an integrated environmental information system, including primary data validation and information synthesis. For instance, the agency builds the Integrated Polluters Register (IPR), which integrates all mandatory environmental reports from polluters to government and connects databases on IPPC facilities, water discharges, air pollution sources, waste management and contaminated sites. CENIA is responsible for the management of the entire information and data flows in the environmental sector. CENIA acts as a standard Environment Protection Agency with emphasis on knowledge and its management. The agency has now 110 permanent employees, of which 80% hold a university degree and has been certified according to ISO 9001:2000, ISO14001:2004, OHSAS 18001:1999 and EMAS.

To sum it up, the governmental efforts in Czech Republic are centered around the activities of the Ministry of Environment and nongovernmental agencies. There is voluntary reporting by predominantly big companies, which regard the environmental issues as important.

As for the Romanian approach to corporate reporting with emphasis on social and environmental reporting, Romanian developments in the field of social and environmental reporting are still at an early stage, although certain steps have been taken in addressing these issues. Some of the important features of the Romanian approach are worth mentioning. First, the majority of Romanian companies do not publish social and environmental reports. Companies (mostly multinationals) include information on their social and environmental practices in the Annual Report that is published and made available to all stakeholders and the public via their website. No separate social and environmental report is made available. In some cases, such as for some Romanian companies or SMEs, although they do have a company website, the company does not publish an Annual Report where such information could be found or even present this kind of information on the website to create awareness. In terms of the quality of the reporting, it is important to mention that overall, the information provided is very general (environmental management, environmental policies, environmental targets and objectives), neglecting information related to environmental risk, costs and obligations. Also, another important aspect to be mentioned is that, as environmental reporting is voluntary in Romania, companies are tempted to present only the positive aspects that could represent an advantage in their relations with stakeholders or a means by which they can improve the company's image.

At the moment, an integrated approach to corporate reporting is needed in Romania. In our case, the trend is set by the big companies. For example, if in 2006, only 24% of the first 100 Romanian companies' ranked according to the registered turnover, have engaged in sustainable development reporting, at present their number increased to 31% displaying Romanian companies' interest in

publishing information related to sustainable development (KPMG Articole și Publicații, 2011).

Our study is aimed to encourage greater openness to knowledge sharing about social and environmental reporting practices among Romanian and Czech companies as well as providing insights into formulating government policy decisions to promoting social and environmental reporting. We believe that a future research regarding the key drivers to social and environmental reporting might represent a starting point in developing a model for social and environmental reporting at company level.

Particular approaches and practices differ around the world. Big industrial studies have been executed on large enterprises, based on the UN DSD initiative. This paper contributes to the literature in the area of environmental reporting by looking into specific pragmatic approach to CSR and environmental reporting via four case studies of companies from two different countries. The companies adopt a pragmatic approach, identifying possible reporting gaps, which would lead to identification of reserves and better utilization of material and energy flows and in the end to cost saving. In Romania companies need more thorough explanation and a framework explaining the need for and a system of environmental and CSR reporting

It would be beneficial to extend this research to a greater number of Czech and Romanian companies and select mainly those in heavy industry, energy or chemistry, which is technologically and materially demanding. We presume that the effect of research could bring us grater savings. This way, the regulatory institutions could find the best practices for regulation used in measuring environmental costs and removal of deterioration of the environment. Similar initiative is already taking place in Germany and Japan. At the moment, we can clearly see the effort for socially responsible behaviour of individual companies. These initiatives, albeit individual, should not be ignored, because in the end they have very positive effect and impact on the whole society.

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