CSR, Sustainability, Ethics & Governance

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Catalina Sitnikov
Dalia Simion
Claudiu George Bocean *Editors*

Current Issues in Corporate Social Responsibility

An International Consideration

Springer

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Series editors

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Foreword

Corporate social responsibility (CSR) is currently a topic of increasing interest in all areas such as business, economics and academia. Many issues connected to CSR are nowadays researched and shared in all businesses and environments. Nowadays, the issues and topics connected to CSR, sustainability, ethics and governance are well debated, researched and applied.

Although the first known definition of CSR was given in 1953 by Howard Bowen (1953, p. 6), the time of business environment becoming aware of the importance of corporate social responsibility started in the 1960s and 1970s. As a result of businesses' globalisation and interconnection, companies increasingly follow the globally imposed trends, social responsibility being at the forefront of such trends. Over the last decades of the twentieth century and the first decades of the twenty-first century, there have been developed a variety of concepts related to social responsibility: corporate social, corporate citizenship, corporate accountability and corporate governance.

Currently, the issue causes an utmost interest both in the academic community and among managers of multinational companies. The main topics investigated aim towards a multitude of CSR actions and the consequences they can have on business. The managers are aware of the diversity of legal norms, standards, practices and CSR needs for a country, region or line of business and of the fact that local managers are subject to constant pressure from stakeholders in order to enhance their involvement in CSR.

CSR has been analysed from the perspective of several research areas, due to its interdisciplinarity. Over time, there have been stated a number of theories that formed the basis of CSR research views (agency theory, stakeholder theory, stewardship theory, resource-based view of the firm, institutional theory, theory of the firm, etc).

Social responsibility involves taking into account all stakeholders expectations, as well as the management of all economic, social and environmental aspects manifested in relations with stakeholders in their areas of influence: workplace, market, value-adding chain, community and public policy. Social responsibility is the solution to render the company's objectives concerning profit with social objectives. Attention to social problems may support maintaining or improving organisational ethics, increasing the company's market value and local community consideration.

Corporate social responsibility is a business philosophy, which emphasises the need to look beyond their ultimate main goal (customer's satisfaction in order to maximise profit to be distributed to capital holders) and to pay attention to other stakeholders in order to minimise the negative impact that these corporations have on the environment or society in general.

Therefore, this book and its chapters cover and explain various insights of CSR and its issues and topics from various perspectives.

Underlining the key aspects and the most debatable CSR issues, the book presents various cases and practical examples of implementation and results based on the fact that organisations can envision CSR in ways that fit their own activities, stakeholders and sphere of influence.

University of Craiova, Dorel Berceanu
Craiova, Romania
Summer 2017

Reference

Bowen, H. R. (1953). *Social responsibilities of the businessman*. New York: Harper Row.

Preface

Corporate social responsibility (CSR) is currently a topic of increasing interest in all areas such as business, economics and academia in general. Not only that, many issues connected to CSR are currently being researched, and knowledge derived from research is shared in all businesses and the general environment. Currently, issues and topics connected to the following areas—CSR, sustainability, ethics and governance—are well debated, researched and applied.

The field puff corporate social responsibility has reoriented our world in a number of ways. There are a lot of current happenings with regard to CSR in governments, business, academia and the civil society, not to mention a number of issues evolving in the realm of CSR in international organisations such as the United Nations and the World Bank and even several non-governmental organisations which are actively involved in promoting socially responsible activities globally. The United Nations for instance has on two occasions since the beginning of the new millennium issued two 15 years' development goals—the Millennium Development Goals 2015 and the Sustainable Development Goals 2030 are two examples of many activities on the part on the UN in this area.

There are also many other new developments in CSR in other spheres of human existence which scholars in academia and professional circles are either researching on or talking about. This book has attempted to add to the literature some of these relatively current issues that practitioners, scholars and students of CSR need to know about as at this point in time, these are in the 15 chapters that make up the book.

It is clear that the way various issues in CSR, sustainability, ethics and governance are presented and approached in current times is of great interest to everyone—scholars, practitioners and all stakeholders. Thus, this addition to the book series on CSR, Ethics and Corporate Governance seeks to add original and well-shaped contributions that explore and present various topics and issues in CSR practices.

It is hoped that our readers find these issues which these editors have described as current will be of interest and will also help our readers to increase their understanding of how the field of corporate social responsibility continues to evolve.

London, UK — Samuel O. Idowu
Craiova, Romania — Catalina Sitnikov
Craiova, Romania — Dalia Simion
Craiova, Romania — Cladiu G. Bocean
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Contents

List of Contributors and Editors

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Claudiu Bocean is a professor and a PhD supervisor in the Faculty of Economics and Business Administration at the University of Craiova. In 2000, he graduated with a bachelor's degree with major in accountancy and informatics from the Faculty of Economics, University of Craiova, Romania. In 2004, he obtained a master's degree in business administration, also from the Faculty of Economics, University of Craiova, Romania. In 2007, he obtained his PhD in economics, from the Faculty of Economics, University of Craiova, Romania. In 2015, he got his habilitation title in management, from the Academy of Economic Sciences in Bucharest, Romania. Since 2002 to the present, he has been teaching and researching in the Faculty of Economics and Business Administration, University of Craiova, on topics such as human resource management, corporate social responsibility, organisation theory and business economics and cooperating with others on projects with national and international universities and organisations.

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Current Issues in Corporate Social Responsibility: An Introduction

Samuel O. Idowu

We are in an era of positive change in all areas of human existence—business, education, government and politics, charities, religion, society and many more. It has become necessary for a number of instruments we use in business and the general societal environment to be remodelled to meet the needs of modern global citizens. The sudden realisation that many of the resources we are accustomed to are exhaustible and could easily become depleted quickly has downed on us alarmingly and been responsible for why things must compellingly change from many dimensions. The Brundtland Report on *Our Common Future* which came into prominence some three decades ago—in 1987 to be precise introduced sustainability perhaps into our vocabulary but certainly into our consciousness. The Report reminds us all that we should not only live for today but think about future generations of everything around us that must continue to exist on this planet. Our failure to understand the implications of what the report requires of us all to live sustainably has serious consequences for everything existing on this planet—the name of the game and what is expected of us is embedded in *corporate social responsibility* as propagated by many CSR scholars such as Bowen (1953), Carroll (1991, 1999, 2016), Capaldi (2004, 2016), Vertigan (2015) just to mention a few.

A cursory search of the term *corporate social responsibility* (CSR) on Google by this author on the 12th September 2017 brought forth 77,000,000 results in just 48 s. This is 3.6 million less than the inhabitants of Germany in Central Europe and 11.5 million more than the inhabitants of the United Kingdom in Western Europe. What is the relevance of this, one may ask. This author is simply trying to demonstrate to his readers one of the easiest way to evident the phenomenal growth in issues, activities and documentations we can lay our hands on in a twinkle of an eye on

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CSR. It also proves that a lot is happening in CSR globally. Organisations, scholars, practitioners, international organisations, governments, NGOs etc. have continued to take issues that surround CSR seriously from the length and breadth of this planet. Not only that, new terms in the field of CSR are coined by scholars and practitioners of CSR every day, new business models and more sustainable approaches to conducting business are constantly emerging having been innovated by modern social entrepreneurs and CSR researchers and practitioners. A lot is indeed going on in the world of CSR globally. This certainly explains the need for an addition to the literature of current issues in CSR.

The book on "International Consideration of Current issues in Corporate Social Responsibility" has taken the debate on CSR to a new level looking at the contributions from these 26 scholars spread around the continent of Europe. These authors have looked at current happenings in the different areas of research as far as CSR is concerned in their different countries of abode.

The very first chapter of the book by *Mitu* and *Stanciu* two Romania tax gurus take the issue of sustainability in to tax when they argue that for any government to build a sustainable efficient economy requires that government to install a highly efficient tax system. These scholars studied the Romanian tax policies and note that the tax system of the taxation principles in the country appears to be a form lacking content.

Costa and Torrecchia two Italian scholars of repute explored the issue of Institutional Integrated Disclosure in the second chapter of the book. These two scholars looking at non-financial disclosure practices of businesses, argue that by providing non-financial information corporate entities fulfil their role of social disclosure and environmental disclosure to their stakeholders. Their chapter also delved into the theme of integrated disclosure. The core idea of the chapter by Costa and Torrecchia is that all sustainability performances are to be summarised, in a 'single' bottom line, expressed in conventional monetary terms, and not only in the customary three bottom lines without such a comprehensive synthesis.

In chapter "*Theoretical Perspectives Concerning Modeling Consumer Behavior Influences on CSR and Marketing Roles in Shaping Consumer Perceptions*", Bocean, Sitnikov and Tudor another team of Romanian scholars look at theoretical perspectives of modelling customer behaviour influences on CSR and marketing roles in shaping customer perception. Theses authors argue that consumers are stakeholders of an organization with a set of complex requirements. Consumers like other stakeholders are interested in environmental issues and fair trade, members of local community, can be employed, relatives or friends of employees, can be shareholders of the organization. Consumers can play an important role in the regulation of entrepreneurial behavior if they are willing to reward socially responsible organizations by changing their purchasing behavior (preferring products and services of those organizations that invest in social responsibility programs). Bocean et al. argue that their paper aims to create a theoretical framework to determine the influence of CSR actions on the purchasing behavior (using the seven core subjects of ISO 26000) and the impact of marketing and CSR communication (its channels and tools) on purchasing decisions. Within these bidirectional approaches the chapter focuses on three issues: consumer expectations on CSR activities, the managers' perception on these expectations, and the decisions of managers on CSR actions and marketing tools and channels used for communicating CSR. Since there is a gap between these three aspects, it is highly important not only to evaluate CSR activities but also consumer perceptions over these activities, and the effectiveness of marketing channels and tools used for communicating CSR, they note.

Simion and Tobă in chapter "*Impact Analysis of the Relationship: Intellectual Capital, Performance and Social Responsibility of the Organization*" which delves into intellectual capital and social responsibility. The chapter notes the profound transformations manifested in the complex global business environment that have brought about changes in the development strategy of those companies, which understand that achieving a sustainable competitive advantage is based on a competitive workforce and increasing labor productivity is possible through the global development of human capital. The chapter also argues that the development of knowledge based economy has led to a new general concept, that of intellectual capital. Intellectual capital or its components cannot act individually, but only in tandem with other resources of the company enabling sustainable value creation in the future. Sustainability is understood as satisfying both economic and non economic interests of all stakeholders, from shareholders, loan capital providers and employees up to the entire community. Thus, in recent years, there has been a notable rise in the number of companies implementing social responsibility in their strategy. Intellectual capital and corporate social responsibility have become the most powerful factors determining the firms' adaptation to the changes of business environment. This paper analyzes the impact of intellectual capital on company's performance, seen in financial and non-financial terms.

The fifth chapter of the book by Siminica and Sichigea who researched the link between CSR and social financial performance of Romanian companies notes the double perspective of CSR using what the authors describe as a pragmatic research on how Romanian companies practice CSR and disclose information on their CSR actions and empiric research on the connection between the social and financial performance of companies. The chapter draws its conclusion from the study of the corporate websites of 665 Romanian companies. The chapter notes a low interest in terms of the communication of these companies' CSR-related concerns. The study analysed these Romanian companies' causal relation between CSR and CFP. Using a linear regression model with a numeric endogenous variable (the turnover index, Romanian acronym: ICA) and a dummy exogenous variable (CSR, with value 1—for publication of information on actual involvement in CSR projects; 0—for publication of theoretical information). The results of tests show a very weak connection between ICA and CSR, while the values of variable coefficients paradoxically suggest a slight trend to disfavour companies showing CSR-related concerns, compared to those which do not have such a focus.

Stein and Wiedemann two German scholars of repute in chapter "*Risk Governance: Basic Rationale and Tentative Findings from the German Banking Sector*" look at risk governance in the German Banking sector. The chapter notes that, over and over again, companies are surprised by unanticipated risks points to a serious deficit, Stein and Wiedemann argue that neither risk management nor corporate governance has been able to avert the incurred damage. Are these two highly specialized functions unable "to see the forest for the trees?" they authors ask. For the sake of overcoming the addressed limitations, the management theory-related search for a solution leads to the proposal of a bridging function: "risk governance". The paper contributes to the development of a generic approach towards the strategic control of risk from the perspective of top management.

The seventh chapter has another team of Romanian scholars—Pirvu, Domnisoru and Vinatoru who looked at Internal Control and Social Responsibility. The chapter looks at the connection between internal control and CSR, with the sole purpose of making organisations aware that a rigorous control can actively contribute to an increase in social responsibility regarding all three relevant dimensions associated to it: economic, social and environmental. Pirvu et al. note that as a functionality of management, control includes an analytical dimension as well as a field of verification, respectively a "mastering" of contexts, mainly internal, but also external to the organisation. Bearing in mind a synthesis and antithesis of the ideas present in the field of expertise associated with control and social responsibility, of regulations provided by various institutions for example, GRI—Global Reporting Initiative.

From the multitude of indicators presented by GRI, the chapter focuses on the generation of indicators relevant to analysed subject, given that there are no indicators specific to the control function. Thus, the authors, consider the selection of those indicators which can contribute, through the mediation of internal managerial control, that of risk management and the internal control environment, to the effective increase of social responsibility and the subsequent reports provided by corporations, all these leading to achieving the desired business leadership goals so as to genuinely consider not only the interests of the shareholders but the interests of all stakeholders, and even beyond that the interests of society as a whole.

Koleva and Ocler from the United Kingdom in a chapter entitled "*Using Constructivist Grounded Theory to Construct a Substantive Theory of Corporate Social Responsibility*" argue that Grounded Theory strategy (GT) has been introduced almost 50 years ago as the approach developed significantly since that time and contributed to emergence of a variety of GT strategies. One of these variations is the constructive turn of Kathy Charmaz. In the paper Koleva and Ocler demonstrate two aspects of the theory namely—the potential of Constructive Grounded Theory (CGT) into scientific inquiry on CSR and how the approach was implemented in order to build a substantive theory for CSR by utilising a practical example from a recently completed doctoral study by the lead author of the chapter.

Dabija, Postelnicu and Dinu in chapter "*Cross-Generational Investigation of Ethics and Sustainability Insights from Romanian Retailing*" look at Ethics and Sustainability in the Romanian Retail Sector. The chapter notes that when targeting consumers, retailers have to increasingly rely on ethical principles, motivated by the need to achieve a favourable competitive position in their minds, exhibit a sustainable behavior and ensure the aesthetics and durability of sold merchandise. Business practices such as exploitation of labour, environmental pollution, enforcing inhumane working conditions etc. are sanctionable worldwide and are key factors for individuals when taking buying decisions, these Romanian authors argue. Based on a cross-generational empirical analysis in an emerging market, the chapter examines their perception level towards ethical principles implemented by fashion, footwear and sportswear retailers when defining a sustainable strategy. They argue that the results of their study clearly show that retailers concerned about respecting ethical principles in emerging markets, where consumers tend to be even more rigorous in their judgments of retailers actions and strategies. The study notes that regardless of their age, consumers select retailers which implement sustainable strategies, e.g. regarding reduction of pollution, selling green or environmentally friendly products, respect employees and working conditions.

In chapter "*The Correlation Corporate Governance: Financial Performances in the Romanian Banks*" Manta, Bădîrcea and Ramona look at the issue of corporate governance and financial performance in Romanian Banks. The chapter examines the impact of corporate governance on the financial performances of the banks. To undertake the research study, the three scholars compiled a database which includes 23 commercial banks in Romania. Starting from a vast reference literature available, Manta et al. identified three characteristics of the board (dimension, the structure from the point of view of the women and of the non-residents) which might have an impact on the financial performance and these characteristics were used as independent variables. The Ordinary Least Squares (OLS) regression from Eviews was used to estimate the relationship between bank performance measures and the independent variables. After the empiric testing, the hypotheses considered within the theoretical section were accepted. Within the first econometric model, the size of the board represented by the supervisory board and the executive board determined a positive and significant impact on the performance. One showed that a numerous board contributes to the increase of the financial value of the considered banks because it assures an efficient supervisory. The second considered model enforced the results provided by the first model, so that the structure of the board determines a positive effect on the performance by means of the non-resident members (the conflicts of interest are reduced) and the presence women in management (new ideas and approaches).

Marcu another Romania scholar in a chapter entitled "*Principles and Ethical Values in Public External Audit Activity*" argues that ethics in the public external audit is not an academic subject or one for public debate. The author analyses the impact of ethics impact in the field of public external audit and the potential consequences of breaching ethics in the exercise of function by a public external auditor. To underline public external auditor's general ethical values and principles, the chapter presents, in general, the conceptual approaches of ethics and, in particular, the activity of the external audit.

In chapter "*Integrated Reporting in Small and Medium Enterprises: Issues and Perspectives from Italy*", the work of an Italian prolific author and scholar Del Baldo on Integrated Reporting in Italian SMEs is showcased. The chapter discusses the most critical issues faced by SMEs in releasing an integrated report and adapting the Integrated Reporting (IR) principles to their needs and features. After presenting the literature framework, the chapter analyses a case-study relative to a medium-sized company belonging to the Italian Network Business Reporting working group, which has been involved in the drafting process of the Guidance for IR in SMEs. Del Baldo's results emphasize the need for simplifying concepts such us materiality, integrated thinking and connectivity and understanding the benefits emanating from the IR adoption. Del Baldo's study has both theoretical and practical implications, since it contributes to nourish a research field which has not been adequately investigated and support the IR diffusion IR among SMEs and practitioners, by emphasizing the SMEs' possible approaches toward the IR journey.

The penultimate chapter of the book by Brabete, Drăgan and Dindiri focuses on Profitability, Accounting, Accountancy Profession and Corporate Social Responsibility. These three Romanians argue that a major objective of accountancy and professionals from the field consists of supporting the durable economic development by meeting the public interest, under the conditions of observing the ethical principles imposed on the profession. The study these authors note is intended to illustrate and analyze certain factors which can perturb the fulfillment of the role of accountancy and accounting profession, seen in terms of meeting the public interest and assuming the social responsibility. In order to meet the proposed objective of the research undertaken, the authors support their reasoning and the ideas expressed starting from the specific problematic of the profit tax, which they consider significant for the given context. In order to intercept some relevant images on the approached topic, they adopted an analysis oriented in double sense, aiming the national rules on the one hand and the international rules regarding the determination and the accounting of profit tax on the other hand.

The very final chapter of the book by Koleva looks at the conceptual gaps and challenges of corporate social responsibility literature in the Middle East. Koleva argues that corporate social responsibility is a research area of burgeoning focus for international business and yet it is mostly dominated by its Western perspectives. However, she notes that the CSR movement can have global ramifications and thus it is important to examine its potential variations in different socio-cultural contexts. The chapter chooses to examine the status of CSR in the Middle East by utilising extant secondary sources in the field. The results highlight two interconnected yet contradictory issues: namely that CSR as a concept does not appear to be well-researched or well-developed in the Middle Eastern context however it is highly possible that the CSR movement as understood in the Western context may not be particularly relevant in this socio-cultural context and maybe alternative interpretations of CSR are needed in the context of Middle Eastern communities. Koleva's review identifies gaps in the literature, discusses possible research directions that can enrich people's knowledge of CSR by developing unique nuances that will augment the knowledge domain with new theoretical insights for the phenomenon, she concludes.

As noted above, the 14 chapters that make up this book agree with this author's contention that a lot is going on in the world of corporate social responsibility. Scholars in the length and breadth of this planet are contributing to knowledge into how the field continues to evolve and reorient our understanding of what more we need to do and how we must do them to make our world fits for purpose not just for this generation but also for future generations of inhabitants of planet Earth.

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Part I
Different Dimensions of Social Responsibility

Tax Principles Between Theory, Practice and Social Responsibility

The Case of Romania

Narcis Eduard Mitu and Cristian Stanciu

Abstract In a world where tax becomes increasingly more important, building a modern, stable and highly efficient tax system represents a desideratum of any government. Building tax policies on solid foundation creates the possibility of a healthy economic and social development generating welfare. In this context, the role of taxation principles is highly important. They can provide a healthy climate in which tax settlement and collection would correspond both to social-economic objectives of the State tax policy, as well as to taxpayers' interests. At the national level, along with the introduction of the Tax Code, there has been an outline, in terms of legislation, of taxation principles which represent the foundation for the functioning of the domestic fiscal mechanism. Theoretically these principles exist having a certain legal form. However, practically, according to the study within this article, taxation principles seem to be a form lacking content.

1 Introduction

Tax policy is an essential component of the budgetary policy, being a concrete form of the State intervention in the economy. This one, together with the monetary policy, represents the main tool available to public administration which may lead to changes in the economic climate in a State Horton and El-Ganainy (2009).

Tax policy is the one that outlines a State conception, measures and actions regarding taxes, fees and contributions, viewed as a tool of stimulating economic growth as well as their role in income constitution and budget expenditure financing (Dobrotă et al. 1999, p. 256).

Public decisions are the result of lengthy transactions between public interests and private ones, between those who take decisions and those who execute them. An important role in maintaining a balance between the two poles of influence lies with the tax policy applied by each State. Musgrave, R. A. and Musgrave, P. B.

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(1984) identify three basic functions of the tax policy: allocation, redistribution and macroeconomic stabilization, through which the equilibrium state can be reached.

The allocation function is manifested mainly when the State has to intervene in the economy in order to correct the phenomenon of market failure by the efficient and optimal allocation of financial resources, especially to areas avoided by the private capital (culture, education, justice, national defence).

Redistribution function makes reference to the State involvement in economy by adjusting, depending on its interests, income or wealth made by economic transactions. To fulfil this function to the best possible, tax policy must satisfy a series of requirements: efficiency, by stimulating all economic agents in obtaining positive results in the economy; solidarity (social justice), by supporting those who temporarily pass through difficult times; equity and equal treatment.

Stabilization function, aiming at achieving a high level of employment, price stability, a solid situation of external balance of payments, as well as an economic growth rate, is carried out by strengthening the legal framework enabling the conduct of economic activities in optimal conditions.

At the global level, for carrying out these functions, either as a response to unexpected economic shocks, or as a result of a poor management or some structural changes in the long term, it is envisaged the need for a tax paradigm adjustment (Brașoveanu 2007, p. 177).

This tendency of tax adjustment and readjustment has recently manifested, increasingly strongly in Romania. With regard to the tax policy applied in transition countries, Regling (2002) considered that it should stimulate the development of a growing environment, but at the same time it should generate optimal conditions for the development of the private sector.

A tax system can be considered reasonable if it is organized and operates based on certain principles. Taxation principles should provide an environment where the settlement and collection of taxes correspond both to social and economic objectives of the State tax policy in that period, as well as to taxpayers' interests.

From this perspective, hereinafter we shall make a critical analysis of recent changes brought to the formulation and definition of the domestic taxation principles, with the attempt to identify if they correspond to the factual reality and to what extent they can generate a tax policy designed to create an environment favourable to economic development.

2 Taxation Principles According to the Fiscal Code: Critical Approach

Attaining the social and economic objectives proposed by the State involves the implementation of the undertaken tax policy. For this purpose, it is necessary that there are certain directions (principles) that would require from all participants to the tax approach, a single, unitary and unequivocal conduct (Găină 2008). Some of

Table 1 Taxation principles in the old and new Fiscal Code

Principles of taxation according to Law No. 571/2003 regarding the Fiscal Code	Principles of taxation according to Law No. 227/2015 regarding the Fiscal Code—the New Fiscal Code
(a) *Neutrality of the fiscal measures* as regards the various categories of investors and capital, forms of ownership, by ensuring equal conditions for investors and for Romanian and foreign capital; (b) *Certitude of taxation*, by developing clear legal norms, that do not lead to arbitrary interpretations, while the deadlines, manner and amounts payable are clear for each payer, respectively such payers may follow and understand their fiscal burden and may determine the impact of their financial management decisions on their fiscal burden; (c) *Fiscal equity* at the level of natural persons, by different taxation of incomes based on the size of the incomes; (d) *Efficiency of taxation* by providing long-term stability of the provisions of the Fiscal Code, so that such provisions do not to lead to unfavourable retroactive effects for natural and legal persons, in comparison with the taxation in force on the date when they adopt major investment decisions.	(a) *Neutrality of the fiscal measures* as regards the various categories of investors and capital, forms of ownership, by ensuring through the level of taxation equal conditions for investors and for Romanian and foreign capital; (b) *Certitude of taxation*, by developing clear legal norms, that do not lead to arbitrary interpretations, while the deadlines, manner and amounts payable are clear for each payer, respectively such payers may follow and understand their fiscal burden and may determine the impact of their financial management decisions on their fiscal burden; (c) *Justness of taxation or fiscal equity* ensures that the fiscal burden of each taxpayer is established based on the contribution power, respectively depending on the amount of its income or properties; (d) *Efficiency of taxation* ensures similar levels of budget income from one budget year to another by maintaining the efficiency of taxes, fees and contributions in all the phases of the economic cycle, both during the periods of economic boom, as well as in crisis periods; (e) *Predictability of taxation* ensures the stability of mandatory taxes, fees and contribution, for a period of time of at least 1 year, where no changes can occur in terms of the increase or introduction of new mandatory taxes, fees or contributions.

these have been expressly stated in the domestic law, and others, starting from the reality imposed by practice, have been consecrated and developed by the Romanian and European legal doctrine.

The recent amendment of domestic tax legislation (Law no. 227/2015 on the Fiscal Code, published in the Official Gazette no. 688/10.09.2015 and Law no. 207/2015 on Fiscal Procedure Code, published in the Official Gazette no. 547/23.07.2015), with applicability starting with 2016, brought a new outline of the basic principles on which the tax system is built (Table 1).

Neutrality of the Fiscal Measures According to the definition of the Fiscal Code, the principle of neutrality of the fiscal measures stipulates that the tax must generate equal conditions to all categories of taxpayers. In other words this principle involves equal tax treatment, the tax shall be determined according to unitary rules for all taxpayers, without direct or indirect discrimination.

From the perspective of the definition given, the principle of the neutrality of fiscal measures is, in Romanian fiscal practice and the European fiscal practice, probably the most well respected principle, because the European Union, by its Court of Justice (ECJ), limits as far as possible the discrimination of non-residents towards residents.

The European Commission, in a Communication to the Council, the European Parliament and the European Economic and Social Committee (2010), bearing the title "Removing cross-border tax obstacles for EU citizens" notifies that the European citizens are often fiscally disadvantaged because of the location of their investments of assets, of the activity carried out or because of lack of information regarding fiscal rules and the rights and obligations arising thereof etc.

Ever since 2014, as shown in the study "Tax Reforms in EU Member States" but also in a press release (retrieved from: http://europa.eu/rapid/press-release_IP-14-31_en.htm), the European Commission announced that it was carrying out an analysis on the fiscal regulations in all Member States in order to make sure that mobile European citizens are not discriminated by the national tax systems.

In the press release already mentioned, Algirdas Šemeta, Commissioner for Taxation, Customs, Anti-Fraud and Audit, said: *EU rules are clear: all EU citizens must be treated equally within the Single Market. There cannot be discrimination, and workers' right to free movement must not be impaired*. However, tax obstacles remain one of the key deterrents to EU citizens leaving their State of origin to look for work in another Member State. Tax obstacles may arise either in the State of origin or in the new State of residence. The most recent example in this respect is the Agreement (on the terms to maintain Great Britain in the European Union) of February 19, 2016, signed in Brussels before BREXIT, that allowed Great Britain to activate "the emergency brake" in order to limit for 7 years the awarding of social benefits to EU citizens (non British) entered on labour market from the Member States.

Due to the special attention the European Union manifests for the compliance with this principle and because of an attraction, often too high, that the government, at national level, has for the foreign capital, in certain circumstances there occurs the positive discrimination phenomenon, where the foreign taxpayer enjoys a more permissive treatment than the domestic taxpayer (phenomenon described by Ziarul Financiar, 2016, April 03, electronic edition).

There are, therefore, situations where a Romanian resident (natural or legal person) is fiscally disadvantaged compared to a foreign one.

However, the neutrality of fiscal measures shall have to manifest not only vertically (between domestic and foreign taxpayers), but also horizontally (between different domestic taxpayers).

From this perspective, we consider that neutrality is not complied with, because, even the law in question (Fiscal Code) and the related ones (see GEO no. 44/2015 on granting tax incentives/Official Gazette no. 785 of October 21, 2015), describe measures that generate differentiated treatments that influence or shape the behaviour of the taxpayer, unbalancing the fiscal environment. Thus, aids and tax facilities granted, most often to non-paying taxpayers, are outside the scope of fiscal neutrality, thus generating discrimination. As Voltaire once said: *in the matter of taxation, every privilege is an injustice* (Yablon 2008, p. 40).

This type of discrimination is very dangerous because it can cause malignant phenomena. Fair taxpayers (good payers) will refuse to pay taxes (practical examples are countless) as long as those in default of payment are "rewarded" by granting them rescheduling, reductions or even tax exemptions.

Neutrality of fiscal measures should ensure a climate that does not facilitate modelling the taxpayer's behaviour to fall within specific conditions that allow the establishment of a fiscal burden lower or even zero (Biriş 2012, p. 22). For this reason it is necessary that in the fiscal legislation the number of exceptions from taxation rule to be reduced to a maximum, otherwise, in practice, the principle of neutrality of fiscal measures shall become a principle lacking relevance.

Certitude of taxation, according to the text in the new Fiscal Code, aims at ensuring the elaboration of clear legal norms, which do not lead to arbitrary interpretations from the participants to the fiscal act. The principle of certitude shall ensure to the taxpayer the conviction that interpretation of fiscal legislation is consistent, uncontroversial and it shall similarly apply in all cases of the same kind.

Fiscal reality has revealed that in Romania this is the type of principle written exclusively for its theoretical relevance. In practice, the professionals in the tax field often complain that the law is unclear, limited or confusing, raising numerous questions regarding its application (Bufan et al. 2008; Mitu and Mitu 2012; Biriş 2012; Croitoru 2015; Buziernescu 2016).

The recent controversies generated by the ambiguity of fiscal provisions as regards taxation on mixed-purpose buildings (residential and head office), or those concerning the obligation to contribute to social health insurance even in case where individuals have no income, are conclusive examples demonstrating the lack of clarity of the legal framework.

It is the legislator's responsibility for the taxpayer's obligations to be clearly set out, and when this does not happen, it shall be required that the weakest to be protected: unclear provisions shall always be interpreted in favour of the taxpayer and against tax authorities (Biriş 2012, p. 23).

Practice has however proven that until present time numerous fiscal provisions have been differently interpreted and applied by the very representatives of the same tax authority. This fact generates multiple abuses even from the bodies responsible for ensuring compliance with the tax principles and norms.

Starting with 2016, along with the entry into force of the new Fiscal Procedure Code (Law No. 207/2015 regarding the Fiscal Procedure Code); there appears an absolute novelty element in domestic tax legislation—the principle "*in dubio contra fiscum*" (in case of doubt regarding the fiscal norm, interpretation favours the taxpayer). The principle "in dubio contra fiscum" represents transposing in taxation of a principle derived from the post-classical Roman law (Codex Theodosianus), namely "*in dubio pro reo*"—unclear provisions are favourable to the person committing itself, namely the weakest in a contractual relation (Dobrev 2012).

But what is the sanction if this desideratum is not achieved, if, despite the principle "*in dubio contra fiscum*", the legislator wrote provisions that may give rise to various interpretations? In what manner is the tax authority liable before the law when incorrectly applying the law? In this moment, the only one sanctioned is the taxpayer, who if he did not properly understand the provisions of the law, it shall be required to pay both the tax, the tax difference as well as interests, penalties or late payment fees.

Justness of Taxation or Fiscal Equity The principle requires that the tax burden of each taxpayer to be established based on the contribution power, respectively depending on the amount of its income or properties.

As currently described in the new Fiscal Code, the principle justness of taxation or fiscal equity does not distinguish between the types of taxes. When defining the principle, it seems that the legislator forgot that fiscal theory, based on the substance and form features, groups (classifies) taxes in direct taxes and indirect taxes (Văcărel et al. 2003, p. 377).

The basis for calculating indirect taxes is the price of the asset, as appropriate, the fee for the service provided. The tax calculation is made proportionally or in fixed amount. Consequently, a characteristic of indirect taxes is the fact that they do not take into consideration the taxpayers' contribution power. The size of the tax is the same for all consumers of an equal quantity or size of an asset, respectively of a service (Florescu et al. 2010, p. 9).

Characteristic for indirect taxes is the fact that they burden taxpayers with low payment capacity and favour those with high payment capacity (Văcărel 1998). Therefore, the principle of fiscal equity may not be applied to indirect taxes, as they do not take into consideration the contribution power, the size of income or the property of taxpayers.

Another problem raised by the presence of this principle in the new Fiscal Code, is represented by the "conflict" that occurs between proportional rates taxation system (uniform taxation or "flat-rate"), currently used for the income tax and corporate tax and the fiscal theory regarding fiscal equity.

Fiscal equity, as a concept, means social justice in terms of taxes (Văcărel et al. 2003, p. 361). When we make use of the spirit of justice in the distribution of tax burdens among members of society, we should make the distinction between the concept of *equality before tax* (tax neutrality) and the concept of *equality in tax*.

Conceptually, fiscal equity expresses the idea that all citizens of a State have to pay taxes according to their contribution capacity. This means that people with the same contribution have to bear equal taxes, which provides *horizontal equity*. At the same time, it assumes that citizens with a greater contribution capacity shall have to pay higher taxes than those with less power, ensuring a kind of *vertical equity* in taxation (Aronson 1977; Țâțu et al. 2006; Toma 2009a).

There is a highly widespread opinion in tax theory, according to which taxation in proportional rates expresses a manifestation of the principle of equality before taxes, maintaining a constant ratio between income and tax, but, at the same time violates the principle of fiscal equity since it fails to take into consideration that the contribution capacity increases along with the increase of incomes obtained by different social groups (Inceu 2005; Voinea and Mihăescu 2009; Armeanu 2010; Matei et al.

2013). Considering this argument, Chand (2008, p. 118) notes that *the proportional tax system does not satisfy the important canon of equity and justice in taxation*. In the proportional tax system, all incomes are taxed at a single uniform rate and it does not matter if the tax-payer's income is high or low. Therefore, the main disadvantage of proportional tax system is that the burden of tax falls more heavily on the poorer sections of the society (Chand 2008; Schiau and Moga 2009, p. 344).

The proportional taxation system (specific to income/corporate tax currently applied in Romania), compared to the principle of justness of taxation or fiscal equity, as defined in the new Fiscal Code, creates great ambiguity regarding the forthcoming philosophy of taxation of income/profit.

According to Biriş (2012), this principle was introduced in national tax law with a view to justify progressive rates system existing at the time the old Fiscal Code (Law no. 571/2003) was adopted. Since 2005, the tax system has changed, by the introduction of proportional rates (the so-called "flat rate").

If desired, at the political decision level, strengthening the current system (the flat rate) it is necessary a replacement of the principle in question (the fiscal equity) with another one, called in the tax theory: the principle of proportionality. Biriş (2012, p. 25) defines taxation proportionality as representing *taxation at a single rate of all taxable income earned by natural persons or legal entities.*

Otherwise, we can interpret that maintaining in the current Fiscal Code the equity principle as defined in the period of operation of the progressive rates system, does nothing more than to prepare a readjustment of future fiscal policy.

In the context where, among the existing taxation systems, the most equitable taxation system seems to be the one based on applying compound progressive rates (by installments) (Inceu 2005; Toma 2009b, p. 72), it may be possible in the future, the compound progressive rates to replace the current system of the "flat rate" (proportional rate).

Consequently, taking into consideration the obvious lack of equity of real direct taxes (tax on land, buildings, etc.), we consider it appropriate to detail and redefine the principle taking into account both the characteristics of different types of taxes used by the national tax system, as well as the way of taxation intended to be used in the future (proportional rates or progressive rates).

Nevertheless, this should be done with extreme care as the concept of equity, in a strict interpretation, may seriously damage the other principles.

Efficiency of Taxation As described in the current legislation, the principle of efficiency of taxation aims at ensuring similar levels of budget income from one budget year to another by maintaining the efficiency of taxes, fees and contributions in all the phases of the economic cycle, both during the periods of economic boom, as well as in crisis periods.

In our opinion this definition lacks any mathematical logic.

How is it possible, for example, given constant efficiency ("maintaining efficiency"), to obtain the same level of budget income ("similar levels") both in times of crisis, when the amount of taxes, fees and contributions decreases, as well as in times of economic boom (when, by efficiency maintaining, but reported to a higher taxation base, budget income should increase)?

Obtaining similar budget incomes (synonyms: resembling, identical, close, according Seche and Seche 2002) both in times of crisis, as well as in economic boom periods can be achieved either by adjusting the taxation base, or by adjusting, modifying the efficiency of taxes, fees and contributions (tax elasticity). However, frequent changes imposed by the increasingly volatile current economic environment (where periods of crisis and economic boom periods are succeeding at great speed), contradict the following principle imposed by the new Fiscal Code: predictability of taxation.

We believe that a correct definition of efficiency of taxation must consider the real situation of several elements: the taxation system; the fiscal apparatus; the fiscal legislation.

The taxation system must ensure the stability of taxes, fees and contributions, to propose an optimal level of taxation that does not hinder economic activity and does not aggravate the material situation of the population.

The fiscal legislation is required to establish clear and efficient legal norms of setting out taxes and penalties for non-compliance with fiscal discipline.

The fiscal apparatus should guide the training activity of its staff, but also counselling of taxpayers, it should coordinate the settlement and correct collection of taxes.

Furthermore, the efficiency of taxation implies that the collection of taxes, fees and contributions to be made with minimum expenditure, at a level as more acceptable as possible for taxpayers.

From the perspective of the aforementioned, we believe that the efficiency of taxation should be defined in a totally different way than it is done at present time. Therefore, we agree with Biriş (2012) who considers that when questioning the effectiveness of taxation *we should firstly refer to the cost/benefit ratio, the ease of calculation, statement and payment of taxes.*

Predictability of taxation is the newest, but also the most expected principle of Romanian taxation system. It was introduced in the national fiscal legislation only on January, 1, 2016, along with the entry into force of the new Fiscal Code.

It is almost an axiom that a characteristic of a good and healthy business climate is represented by the stability and predictability of the regulatory framework, in general and the tax framework in particular.

In 2009, a Deloitte study entitled Romanian fiscality—"The radiography of an incomplete reform" identified, among the most desirable priorities that the Minister of Public Finance should consider in setting out the agenda of fiscal policy, not so much fiscal incentive measures, but primarily measures designed to remedy the existing situation in the real economic environment. Therefore, the business environment outlined the need for the authorities to pursue a medium and long term fiscal strategy and focus its efforts on reducing the frequency of legislative changes. Approximately 34% (first place among priorities) of the entrepreneurs participating in the study claimed that the premise for a tax environment favourable to business development is the stability of the legislation. Only in this way, the business environment can establish and follow a coherent strategy and a sustainable budget. Furthermore, 22% of the participants in the study (second place, among priorities) were in favour of the introduction of clear procedures for tax administration.

As well, the study "The development strategy of Romania for the next 20 years" (Vlad et al. 2015, p. 451, 461, 474), a project of the Romanian Academy, which refers to the fundamental challenges of the Romanian society, identifies in the fiscal policy field, as the main weakness, the fiscal and legislative instability.

In 2016, another study (now at its first edition), conducted by EY (Ernst & Young) Romania in association with Raiffeisen Bank, entitled "Entrepreneurs Speak Out—The Romanian Entrepreneurship Barometer", sets on the first place (70% of respondents) in the top of the biggest obstacles in creating and developing a business in Romania, the lack of a clearly correlated and stable fiscal and legislative framework.

Even though the academic and business environment emphasize the importance and necessity of the strict observance of this principle, the manner of its transposition in reality shows that in Romania, in the fiscal system and not exclusively, there is a significant discrepancy between theory and practice.

In an analysis conducted by Ziarul Financiar (2013, November 25), with reference to the old Fiscal Code, Jurubiță, partner, deputy head taxation services at KPMG audit and consultancy company, says that *of the 298 articles of the initial version of the Fiscal Code, only 25 articles have not undergone any change over the almost 10 years of its existence. Among these, most of them refer to general principles and rules*. The old Fiscal Code, published in December 2003 and entered into force at the beginning of 2004, has undergone in 12 years, over 120 main changes which have shown the lack of predictability and stability of the fiscal legislative framework, the investors often finding themselves in the position of reassess their medium and long term plans, simply because of fiscal reasons, not business.

Unfortunately, the lack of predictability and stability are perpetuated even after the implementation of the new tax legal framework. Thus, since its adoption, the new Fiscal Code has been amended (by the time of writing this article) eight times, without taking into account the auxiliary legislation which refers to the implementation rules and declarative fiscal documentation. Moreover, four of these normative acts were published even before the law would effectively enter into force.

The lack of stability of the legal framework seems to be a feature of the future as well. An example in this regard is the idea advanced on February 22, 2016 by the Prime Minister Cioloș in a meeting with local authorities, at the General Assembly of the Association of Communes in Romania. Thus, the transition to a new taxation system based on the market value of the properties represents the solution brought in debate for supplementing financial resources of local budgets.

Furthermore, there are in discussion other two changes of the domestic tax framework: reducing the social security contributions (CAS) by 5 percentage points and introduction of a tax specific to tourism industry (calculated per each tourist unit in part, based on some formulas taking into consideration several conditions, among which the area where the hotel/guesthouse is located, the number of accommodation places, etc.).

In the case of Romania, if we were to introduce into the equation the political and economic instability characteristic to this period, both globally as internally, it is possible that this principle (predictability and stability of taxation) is another example of a statement fully justified in theory, but inapplicable in practice.

3 Can Taxation Generate Social Responsibility?

The evolution of the Romanian fiscal system has been slow, non-transparent, circumstantial and frequently interrupted by legislative changes.

Instability and lack of coherence of the tax system have affected the strengthening of accumulations both of taxpayers, as well as of the tax authorities.

The crystallization process of clear, stable and competitive fiscal principles, at domestic level, proves to be a cumbersome initiative, with major deficiencies of implementation and deep effects in the taxpayers' behaviour.

The lack of clear landmarks has led in tax practice to a certain perpetuation of some vitiated behaviours which, in time, led to the dilution of taxpayers' confidence in the institution of tax, adversely affecting their cooperation with authorities and compliance with tax obligations.

Taxes, fees and contributions are also an instrument of "social engineering", a means to encourage or discourage certain behaviours, so the principles underlying a healthy fiscal system should be built, primarily on ethical grounds that encourage social responsibility. But traditionally in Romania, incorporating fiscal policy in a social responsibility agenda has been sporadic and often hindered by the pressures existing between stakeholders and public institutions that manage and collect tax liabilities. Since tax obligations are seen as a transfer between stakeholders and the State, it is difficult for a corporation to disclose the obligations values owed to the State (Desai and Dharmapala 2005).

A study conducted in the USA (Watson 2011) highlights an inverse relationship between corporative social responsibility and fiscal aggressiveness (incisiveness) (differences between accounting and fiscal values, effective tax rates). Overall, the proof provided in this study sustain the idea according to which there is an inverse relation between corporative social responsibility and fiscal aggressiveness, and the social responsibility activities affect tax statements of the company.

The State may opt to fulfil certain social responsibility actions on its own or it may delegate them to the private sector, if it considers it is more effective in their implementation. But, in a market economy, the State shall rarely require in a direct manner to its private agents to carry out corporate social responsibility actions (Vintilă et al. 2012).

The principles of taxation represent a subject of dispute and controversy because, from one period to another, from one school of thought to another, from one author to another, interests and objectives are different. Principles can be interpreted in different ways, depending on how we treat and understand the interests, often divergent, of the two participants in the tax equation: the taxpayer and the State.

There is a permanent contradiction between the need of State of financial resources as consistent as possible, secured by a high fiscal efficiency and the low willingness of taxpayers to provide these resources. Thus, in terms of efficiency, taxes should bring more money in the public treasury, and in terms of tax equity, tax must take into consideration the personal situation of each taxpayer. Unfortunately, what is equitable has a reduced efficiency and, most of the times, which has a high efficiency is not equitable (productive taxes are not fair, and fair taxes are not productive) (Buziernescu 2006).

Nevertheless social responsibility can add consistency and can ensure a balance between the interests of taxpayers and those of the State. Therefore, the construction of a modern tax system and good fiscal governance must be based on principles enabling and encouraging social responsibility actions on the part of taxpayers.

Thus, we believe that introducing a principle of social and economic policy in the category of tax principles can only be beneficial.

According to this principle, it should be expressly provided in granting tax benefits to all organizations that are considering actions to support social responsibility. Thus, for taxpayers who employ persons with disabilities and adapt their work place according to their needs, for those engaged in activities of environmental protection, activities promoting sports and culture etc., there must be a fiscal approach to support, permanently sustain and encourage such actions.

Such a principle would require the use of elastic taxes, easily adaptable to the needs of the society, to act as a lever for the development of taxpayers' appetite for social responsibility actions.

4 Conclusion

The performance and health of the economy of a state fundamentally depend on a mix of complementary policies (trade, monetary, salary, tax, etc.). From the perspective of developing a competitive economy, fiscal policy has a duty to harmonize the rigors of the macroeconomic stability with the objective of sustainable growth.

In the European context, even if in terms of the rates applied, the national taxation seems appealing, Romania cannot become more competitive if things continue to be complicated in terms of fiscal foundation. A sound fiscal policy requires that the theoretical bases to be clear and stable.

The principle "less is more" might work very well in taxation as well. The relationship between the State and the taxpayer must be based on simple, clear rules, which are easy to understand and implement. Taxation should be transformed into an instrument of national development (on a long-term) and not into an instrument to satisfy some particular interests (on a short term). *We cannot have a stable fiscal code if tax rules are undermined by exceptions* (Biriş 2012, p. 28).

More than being written, principles must be respected. We believe it is necessary to find a proper legal way by which in the future the change of tax laws nucleus should be possible only pursuant to the law and based on the existence of a reasonable period of time from the time of decision to be changed until the effective entry into force.

Regarding the possibility to amend and supplement the Fiscal Code, the current legal framework (art. 4 par. 1, 2, 3, 4) is still highly ambiguous. The paragraph according to which the Code *shall be amended and supplemented pursuant to the law, which enters into force no sooner than 6 months after publication in the Official Gazette* is cancelled by the following paragraph, which states that *amendments and/or supplements are adopted by ordinances, it is possible to provide shorter deadlines for entry into force*. Therefore, the imperative "shall be amended and supplemented pursuant to the law" is cancelled. It is thereby reinforced the highly damaging practice that makes a normative act of utmost importance to be further amended by the same State body which also shall enforce it. Therefore, the executive is the one who makes the rules of the game it plays. In our opinion it flagrantly violates at least two principles: the certitude and the predictability of taxation.

A stable fiscal policy directed to economic and social development requires the existence of the capacity and the will to set out priorities and observe them.

Numerous fiscal behavioural studies (Braithwaite 2002; Cardozo 2011; Congdon et al. 2009, 2011; Wenzel 2005, etc.) show that in their vast majority, taxpayers "make abuse" of the law whenever a breach is identified, but this is understandable because almost no one feels pleasure in paying taxes and fees. But it is the responsibility of the legislator for tax principles and obligations of the taxpayer to be clearly defined, and when this does not happen it is required that the weakest should be protected: unclear provisions must always be interpreted in favour of the taxpayer and against the tax authority ("in dubio contra fiscum").

It is expected that a stable tax system, which is based on solid principles, correctly implemented, as well as the mitigation of bureaucratic constraints of the system (which cause serious disruption to the economic activity) shall stop the migration of economic agents towards the underground sector, even stimulate the "getting out" of a bigger part thereof. Fiscal transparency is an essential prerequisite for enhancing the government performance, the consolidation of public finances and attaining the mandatory desideratum of any government: the fullest possible satisfaction of the taxpayers' requirements.

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Social, Environmental and Financial Information

A Proposal for Institutional Integrated Disclosure

Massimo Costa and Patrizia Torrecchia

Abstract This chapter tries to delineate the institutional external disclosure for every kind of concerns, including information beyond the strict financial domain.

It deals with social disclosure (variables of human and social nature), and with environmental disclosure (variables of physical-natural nature). The theme of integrated disclosure is dealt with as well. A basic choice is the privileged reference to the entity and not to the firm or corporate. Thus, it is chosen a 'generalistic' approach, according whom the common characters for every kind of entity will be exposed at the beginning, afterwards the variance between public and private 'world', and between no profit and for profit organisations.

The core idea of the chapter is that all sustainability performances are to be summarised, finally, in a 'single' bottom line, expressed in conventional monetary terms, and not only in the customary three bottom lines without such a comprehensive synthesis.

1 Introduction

Since many decades the spread of social and environmental disclosure has exceeded the narrow confines of financial information. This expansion of scientific attention seems to be started paradoxically by major for-profit corporations, which more than others would have been focused only on creation of value for investors (Tinker 1984). Indeed, in spite of noteworthy old evidence in the field of non-profit entities, but of limited general impact, a demand for information by stakeholders (not only as shareholders) in the field of for-profit organisations is to be observed, by the second half of the twentieth century, about *sustainability* of business growth.

Although the chapter is the result of a common effort and understanding, for legal purposes Sections on 'Background' and on 'Future Research Directions' are to be attributed to Patrizia Torrecchia, while the others, out of the Conclusion, are to be attributed to Massimo Costa. Abstract, Conclusion and References are the outcome of a strictly joint production.

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This core concept of sustainability involved, at first, only ‘social’ dimensions, faced to labour exploitation and social disintegration phenomena, and, afterwards, also ‘environmental’ ones, faced to the growing footprint weight of every kind of production and to the rapid depletion of non-renewable resources (Mintz 2014).

Several reasons stand behind this latest request, often not compatible with each other, but even converging towards this new type of sensitivity: sustainability as a means of creating a ‘smarter’ value, an unavoidable social constraint, ‘ethical’ demand (Di Giandomenico 2008), reflecting a widening array of stakeholders. In any case, this is no longer extraneous to the purpose of investors and even of the management, at least in more advanced contexts.

However, the aim of this chapter is not to consider generically CSR in itself but to focus on the narrower and connected issue of CSR disclosure. The widespread term of ‘CSR’ is not to be questioned here, but it is important to note its intrinsic limits; responsibility, in fact is not only ‘corporate’, involving every sort of entities, and is not only social, if not in a wider meaning of the term. This disclosure will be, of course, only the institutional and non-contingent or episodic one. About this theme a brief summary will be given, predominantly of diachronic nature, with an attempt to an ex *post* systematisation. This chapter involves simultaneously themes of scientific literature, historical and legal-normative, without assuming the aim of a comprehensive review that might seem too ambitious.

This chapter is limited in space and this does not allow a full exploration of the theme with particular reference to: (a) inability to produce empirical evidence or even an overview on the regulatory obligations of social and environmental entity disclosure in the major world economies, despite its relevance; (b) deliberate absence of any reference to ‘national’ social and environmental accounts, while our scope is bounded on the corporate or entity level; (c) absence of any reference to the internal disclosure on social and environmental issues, covered by *management accounting*.

This chapter, after this short introductory section, is shared in the following way. After a synthetic presentation of the cultural background, it will begin with the main focus of the chapter providing a brief historical *excursus* on social and environmental reports. Here the difference between the social and environmental disclosure at entity level and the corresponding at aggregate level or ‘national’ one will be pointed out: in literature there are often overlapping margins, if not confusing, between these two levels. Having this point a historical character, it embeds its own literature review, while the previous background synthesizes it in an *a priori* framework, as a preliminary guide for the reader. Then, a brief *general* theoretical systematisation on the characters of this institutional disclosure, will follow, and after the three major sector areas: for businesses/enterprises, the socio-environmental disclosure in the field of CSR; for public administrations, the framework of the so called OSR (*Organisation Social Responsibility*) and sustainability; for non-profit organisations, finally, the so called ‘mission reports’. Then, it is to be found a section on integrated disclosure of prevailing normative nature and, after some lines on future research, some concluding summary notes.

2 Background

The social-environmental disclosure is generally divided into two major areas of the *social* one and of the *environmental* one. This distinction comes from a substantial difference between the two 'new' areas of reporting. Disclosure is generally considered *social* when it involves variables of human and social aspects, financial or not (distribution of added value, employment, 'social welfare', in broad sense), while it is *environmental*, when it involves variables of physical or natural character (maintaining the environmental sustainability balances, for an instance). This distinction does not exclude the possibility to *integrate* both them and together with *financial* accounting. Thus, according to the most recent developments of literature, also the theme of integrated communication will be considered in these two dimensions as well as in the more traditional financial one.

A fundamental choice is the reference to the general 'entity', meant as generic 'concern' and not only a for-profit 'business'. The approach is, then, 'generalistic': at first, the common features of disclosure in any class of entities will be declined, then the differences between public and private 'world' will be explained, and, within the latter, between 'no-profit oriented' and 'profit-oriented' entities. The corporate, then, will be seen as a very special example within the field of profit-oriented entities.

The expansion of institutional disclosure from the traditional domain (from now on, briefly 'financial') toward the social one, cannot be represented as a simple wider focus toward a larger set of variables. This perspective would only underline the formal aspects of disclosure without investing the substance of the ongoing process. This represents in our opinion, instead, a real Copernican Revolution from traditional accounting, a radical change in perspective, with very deep political and philosophical roots. It is the main feature, in the disclosure domain, of CSR (Corporate Social Responsibility), which—perhaps—would be better named '*Entity* Social Responsibility' (then, ESR), not being only concerned with corporations.

In turn, this ESR comes from the overcoming of the egoistic paradigm on which is grafted all the philosophical and economic thought from the advent of liberalism to today. In the classic paradigm, the maximum 'social welfare' was born, ultimately, from the extreme selfishness of members of the society, then from the competition. It is nearly impossible to explain in few lines how this paradigm has influenced the developments of contemporary economics and accounting. Let us think, just for an instance, to the classic postulates of profit maximisation or to the mathematical 'conclusions' on the preference for competitive regulations in terms of better allocation of resources. All the contradictions, that emerged over time, have been increasingly run as corrections of an inherently valid model, empirical solutions to the inevitable 'market failures', or as an expression of 'ethical' necessity that transcended the undisputed economical laws. Alternatively, only too radical alternatives to the individualist paradigm and to all forms of economic organisation based on selfishness and on the exchange are to be found in literature, as the Marxist paradigm has long been; too radical, perhaps, for representing a real challenge for the mainstream framework.

In this context, Accounting should serve, more or less, the economic interests of the entity's ownership: maximising 'capital value' or 'income', as either for the 'owners' or for the 'business' seen as an institution in itself. In the debate of the nineteenth and twentieth centuries the economic postulate was never really questioned. The same neglecting of the non-business entities was implicitly justified for their marginality: only businesses create value, then only businesses are real productive and deserve attention from accounting thought.

The egoistic postulate became the economic postulate par excellence, almost an undisputed natural law. The egoistic limits were seen only as 'constraints' to act egoistically, as decided without considering the collective interest.

Thus, it should be possible to distinguish two categories of people: on the one hand, those who follow the mentioned constraints, that should achieve the maximisation of their own utility; on the other hand, those who follow different values that should appear, according to Milton Friedman (1962), as real subversive.

The uncovered assumption of this postulate is the infinite growth without any contradiction of the capitalist production system. But this assumption has been falsified, both by the logic and by the history itself. There is no possibility for a growth achieved through an indiscriminate exploitation of the surrounding resources. In fact, such kind of growth is definitely destined to fail. This is the reason for searching other ways, as expression of 'collective' interests.

Therefore, the social and environmental information/disclosure marks the widening of entity domain from the traditional *egoistic* institutional purposes to compatible *altruistic* ones and, above all, *solidarity* ones (i.e. of collective interest) for social action. However, this process is not straightforward, since the 'social welfare'—considered outside of the trade market and the financial domain—loses the monetary meter which is the privileged *conventional sign* that makes resources enforceable and comparable (and then 'balanceable' each other). Therefore, the socio-environmental disclosure is primarily a measuring complex problem of qualitative variables, or even quantitative-physical ones, but not attributable to a common unit of measurement. In particular, 'quality' is subjective by definition, both in the definition of the performance levels and in evaluation paths. Thus, one of the main problems of the socio-environmental disclosure is not the definition of objective and universal standards (Nicolò 2000), but the explanation as clearly as possible of qualitative assumptions.

The institutional disclosure can be distinguished into two main areas: (a) the accounting disclosure, which is inherently systematic in nature; (b) the non-accounting or statistical disclosure, which is instead fragmented in nature. The latter is more elastic than the first, and therefore it is able to better manage the complexity of subjective and qualitative evaluations. It allows activating some processes of cooperation and expectations between the entity and stakeholders who, in turn, carry concrete processes of social responsible and sustainable entity's policies. However, the non-accounting disclosure also presents severe methodological limitations: the extreme variety of concepts, methods, criteria for classification and measurement units. Only the former, in fact, can achieve a systemic level of integration of the data. Thereby, it can also be object of a normative process, *ex ante*, and of a reviewing, *ex post*, which ensures greater reliability and neutrality of accounting systems, although these can be 'experienced' by the entity in practice as a mere compulsory compliance. For this reason, in the following of the chapter the attention will be focused on systematic disclosure.

3 Institutional Disclosure on Environmental, Social and Financial Issues

3.1 Social Accounting and Social Reports: Historical Notes

The history of social accounting and social reports is a relatively recent history, even if it is more than half a century old. Contemporary 'classical' accounting arises during the same period of the birth and development of large undertakings (corporations in particular) during the so called Second Industrial Revolution and, in a parallel way, of the establishment of large state bureaucracies. 'Italian case' apart, whose contemporary accounting schools date back at the early nineteenth century, due probably to the 'ancient' inheritance dating from the fifteenth century and before, this process concerned the main industrialized countries starting from the last decade of the nineteenth century and reached its maturity between the 30s and 50s of the twentieth century (in Italy with Zappa, in Germany with Schmalenbach, in the USA with Paton and others, in France with the 'Plan Comptable Général', in the UK with the elaboration of the 'true and fair view', at least). In this classic Accounting the limit on financial domain was simply out of the question. The same crisis of '29, which favoured a shift from static (or 'assets and liabilities') views to dynamic (or 'revenues and expenses') ones, accounted only for financial resources. Zappa, for an instance, considered only the shareholders' 'income' neglecting the other incomes belonging to other stakeholders. Just at the end of this period some authors made another shift to include all the components of the 'added value'. But even the concept of added value is not enough for a proper social accounting. Before addressing a conscious historical path, however a brief theoretical introduction is necessary.

'Social' (accounting or reports) is, already in the name, an explicit generalization from the traditional domain of Accounting towards a broader domain. 'Social' relations include 'financial' ones but not *vice versa*. The sense of social accounting or social reports cannot be understood without taking into account the parallel spread of Corporate Social Responsibility. CSR has not a unique definition, and it is nearly impossible to summarise all the literature about it.[1] According to an

[1]Just the Italian literature—for an instance—is immense. In the following sections there are just specific references to different authors, from the classical to the most recent ones, who dealt with

authoritative definition given by the EU in 2002, it is "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with stakeholders on a voluntary basis".

This definition deserves some generalisations to be conceptually useful. At first, it is too focused on companies, but the 'social responsibility' phenomenon invests potentially all enterprises, even partnership, public or social enterprises, individual enterprises, cooperatives, and others (Corrocher 2005); then, even so, it would be too restricted as public and private non-profit entities bring a 'social responsibility' for their institutional nature which is wider than that of profit-oriented companies. We should therefore refer more correctly to an 'entity social responsibility'. Secondly, the reference to the 'voluntary basis' seems entirely unnecessary with respect to a definition of the concept. Social and environmental disclosure or other social-business environmental behaviours are to be defined regardless of the voluntary or compulsory nature of their issuing/acting (Crowther-Caliyurt 2008).

According to our proposal, the EU definition could become as the following: 'Entity Social Responsibility' as the "concept whereby an entity incorporates, among its institutional purposes, even those with a social or environmental nature, alongside those more strictly financial and economic, expanding adequately and correspondingly its stakeholders, and adjusting their strategies and operations, as well as its institutional disclosure in favour of the above stakeholders". Therefore, from this definition, 'social reports', being expression of this institutional disclosure, are a logical subset of the larger ESR (entity social responsibility) and they should therefore not be overlapped to it, despite the links that exist between the two concepts.

Thus, at the root of social reports, there is a relationship of *entrustment* similar but different, at the same time, from the classical one in which shareholders entrust their capital to managers. *Similar*, because there is an entrustment, not only of financial resources, but also of other values, such work, by workers, consumption decisions, by customers, or other similar intangible items. *Different*, because the entrustment regards values only in small part financial or translatable in financial terms. Social reports represent only a little segment of ESR (or CSR), but it is not understandable without; it would be a nonsense without the identification of the actual *recipients* of the economic/administrative activity of the entity and of the

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this topic. Here it seems necessary to mention, at least, the following authors (of which we do not provide their single contributions as they often intervened about this topic with different works): M. Bartolomeo, B. Campedelli, P.E. Cassandro, E. Cavalieri, M. Cisi, F. Donato, G. Farneti, M.E. Di Giandomenico, L. Hinna, F. Manni, S. Marchetti, A. Matacena, C. Mio, D. Nicolò, M. Pavan, L. Pulejo, G. Rusconi, F. Superti Furga, F. Vermiglio. Moreover, we recall the documents of *Gruppo di Studio sul Bilancio Sociale*. Some of the mentioned authors were interested also—or only—in Environmental Statement.

About the international literature, it seems not even possible to attempt an indication of some of the major authors. It seems appropriate just to refer to the birth of specialized journals, including, at least, *International Journal of Corporate Social Responsibility, Social and Environmental Accounting Review*, *Social and Environmental Accountability Journal*, *Social Responsibility Journal*, *Corporate Social Responsibility and Environmental Management*.

ends that inspire it. A proper 'social contract' is defined among the entity and the complex of these stakeholders, seen as individuals, but also as a community. Unlike the 'company contract', which links capitalists to the classical commercial company, the above mentioned 'social contract' between entity and society is not perfectly determined, so its contents are indefinite as well. Every attempt to explicit it seems to imply the definition of ethical profiles, which, on turn, brings always the risk to become 'ideological' as they assume the contribution an entity gives to the society upon a subjective point of view, potentially biased by religious, or political, or cultural not shared assumptions.

In this context, it is not opportune to enter fully this ideological *querelle* on the ultimate ends of ESR/CSR. This would lead, in fact, to an impossible choice from opposing considerations. Just to give some examples, they go from liberal extremism (which sees profit as the only social purpose for enterprises, and is not interested about other categories of entities), to the positions of those who see in CSR a 'tool' to create a favourable environment to the company, and then again as a mere way to make profit, whosoever sets an extreme relativism corporate purposes, to those who derives in a strictly unitary, absolute way by general ethical principles, often assumed to be universal, sometimes derived directly from certain religious settings (Christian ethics, Islamic ethics, philosophical assumptions). The duty of accounting scholar—in authors' opinion—is *not* to decide what is good in absolute, but simply to assume the presence of these ultimate purposes from a formal point of view, recognising where necessary the variables involved in a strictly empirical perspective and to determine their logical validity, costs and benefits of disclosure related to these social variables.

Going back to a strictly historical perspective, once again it seems possible to record an 'Italian' primacy in the field of the social reporting, even when this sensitivity was not yet perceived in the remaining of the world. Already in the early twentieth century, the impulse of the classical studies of Italian Accounting toward general concepts led it to pay attention to entities of the 'third' sector (mainly charitable organisations), for which a proper 'statement' devoted to the achievement of the institutional social mission was theorised and practiced. It was the so called 'mission statement', which, however, had a very limited impact outside the non-profit sector. Until the end of the World War II there were no conditions, elsewhere, for a sensitivity of this type. Germany is the country which showed the earliest signs of corporate social sensitivity. In fact, AEG published its first social reports already in 1938 (Bowen 1953). During these years, also aided by the non-democratic cultural climate in Germany and Italy, 'social economics studies' were flourishing, as a 'third way' between socialism and capitalism and the active intervention of the state in economy was theorised. In this control, information on enterprises contribution to national welfare was considered of great relevance. It is not a coincidence that in Germany and Italy the most famous 'business economics' of Europe, were born as an evolution of the previous administrative and accounting techniques, respectively, the "*Betriebwirtschaftslehre*" and the "*Economia aziendale*".

Both the Italian *Economia aziendale* and the German *Betriebswirtschaftslehre* propose a study of intermediate economic systems, and their contribution to national production, seen as the predominant purpose than the simple production of profit for shareholders. In this context, it seems possible to collocate on the one hand, Zappa's 'income' seen as result of a 'durable' combination of production factors, and so a holistic and social idea of enterprise; on the other hand, Schmalenbach's 'Dinamische Bilanz' from which the income statement with value and costs of production (the one finally adopted by the CEE IV company directive on annual statements in 1978) was derived.

But it would be wrong to link this sensitivity only to the authoritarian regimes of the time, since it is possible to find similar experiences, theoretical and practical, in socialist countries of northern Europe, such as Sweden, or in long liberal tradition countries, like the Netherlands. This sensitivity—as mentioned—though not fully invested the theme of social accounting, but rather led in a first step to 'socialise' traditional financial statements, incorporated indexes and values extraneous to the traditional reporting to investors. The European continental Post-war, with its Christian Democrat and Social Democrat governments, did not break this line of "socialised financial statement" (see, at least, Gabrovec Mei (1990) for the notion of 'socialised' as distinct from 'social'), but it even strengthened it by means of an increasingly pervasive role by the state and trade unions. In this sense it can also be read the interventionist attitude, in France and Spain, where the government, through an 'Accounting Plan' wanted to direct the industrial policy of private companies and direct them toward national and social goals.

Yet, those times were not still mature for a complete deployment of 'social statements' autonomous from the financial ones. Only with the social, political, economic and cultural protest movement of the 60s the issue of 'social sustainability' of capitalist accumulation will spread everywhere. The 'Sixty-eight', on which this process culminated, is one of the most relevant context factors, not the only one, in order a literature and practice on social accounting and reports would finally grow.

Only during the following decade the Anglo-Saxon countries were fully involved by the new cultural climate. During the 70s both the literature and the practice on social reporting finally spread. In the US, based on the model of more traditional disclosure, particularly rooted in that country, the *Survey on Social Responsibility Disclosure* was published. Similarly, a *White Paper* was published in the United Kingdom. In Germany the practice of publishing social statements were increasingly being used, becoming widespread among large enterprises. In Italy a doctrinal debate arises, but also the first publication of a social statement, by Merloni *ltd.* (in 1978). In France, it is possible to find a true law on social statements. All major Western economies, finally, were then open to this new kind of disclosure. The theoretical models were, however, fragmented and underdeveloped. Although of difficult operational application, the most consistent seems to be Solomon's one (Solomons 1974), which, however, is limited only to the elements of social welfare susceptible of financial evaluation. The model can be summarized in the following equation:

Total value generated by the production process (Value Added) + 'non-ownership' Benefits (to apply to external parties or to the community) − 'non-ownership' Costs (external/community) = 'Social' Economic Result.

Over the following decade the debate on the social statement was becoming consolidated. It is interesting to recall at least the IX International Congress of Strasbourg in 1983, with which, on the German experience, a first structure for 'social statements' was proposed. On the other hand, there was a reaction by the traditional financial accounting scholars and practitioners against any form of 'socialisation' of financial statements. This reaction, according with the neo-liberal climate that in those years was being designed, especially in Anglo-Saxon countries, however, represented an opportunity for a full emancipation of social reporting from classical financial reporting. The 90s years saw the birth of environmental reporting and this, in spite of a more mature debate on social statements, reduces the attention toward them. The progressive extension of stakeholders audience, conducted now to consider, among them, even of 'future citizens', and thus the sustainability now becomes an inter-temporal concept that impacts on reproduction ability of resources consumed in the production process. The social reports, in this context, carry now two meanings: a wider one, which also includes the proper environmental dimension; a narrower one, which is confined to a strictly social or cultural domain, leaving to environmental statements the remaining domain. Still during the same years the 'quality' of entity performance is tried to be evaluated. The most significant contribution along this direction is certainly the *balanced scorecard*.

Literature and practice of the last 15 years are too recent, and due to its vastness it cannot be easily summarised (Burritt and Schaltegger 2010). Among other streams now the interest of businesses on pursuing CSR strategies and policies is investigated (Carroll and Shabana 2010).

Finally a process of standardisation in the field of social reporting spreads: at the European level, it is to be remembered at least the Green Book of the EU in 2002. The EU, in which literature and practices of the European countries converge, it is perhaps the most advanced place in the world for its attention to social issues. Directive 2003/51/EC, says (article 46, paragraph 1, letter b, of IV Directive emended): "To the extent necessary for an understanding of the company's development, performance or position, the analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, *including to environmental and employees matters*" [ours the italic]. As shown, however, the standardisation actions or promotion of social disclosures has never gone, at least until now, beyond a mere voluntary disclosure. Only in recent years the international network of CSR scholars enhances in a significant manner. Among these, it is appropriate to recall at least the *Encyclopaedia of CSR* (S. Idowu et al. 2013) and other publishing initiatives as well as the *First World Congress on CSR* (London, 2014), followed by other global conferences which now are regularly organised (Nanjing, 2015; Cologne, 2016; Perth, programmed for 2017).

3.2 Environmental Accounting and Environmental Reports: Historical Notes

The history of 'environmental' statements is shorter and newer than social one.

The First World Climate Conference was held in Geneva (1979). Other seminal historical meetings and institutions, out nearly of the last 15 years, have been the Brundtland Commission, formally the World Commission on Environment and Development (WCED), which was convened by the United Nations (1983), the World Commission on Environment and Development Tokyo (1987), the Conferences in Toronto (1988), Rio de Janeiro (1992), Bruxelles (1993), Aalborg (1994), Berlin (1995), Göteborg (1997), Kyoto (1999), and the World Summit of Johannesburg (2002).

As mentioned above, the 90s years marked a turning point for the new environmental sensitivity. Scientific studies had already shown that continuous development would involve an increasing use of non-renewable resources and a so intense consumption of renewable resources which would not allow their reconstitution. According authoritative studies, since 1985 the global consumption of renewable resources exceeds the annual capacity of their reconstitution and since then this relationship went rapidly to deteriorate. Since the 90s, then, people became aware of the un-sustainability of an endless growth path. The concept of 'sustainable development' is formulated for the first time in the '*Bruntlandt Report*' (1987) by the World Commission for Environment and Development. After a few years a joint document among various countries was signed (the so called 'Agenda 21') during the conference held in Rio de Janeiro (1992): for the first time principles, objectives and actions for a more balanced development under social, environmental and economic profiles were determined. Rio de Janeiro's *Agenda 21* is still, however, a transition document. The unlimited development is not denied, but its sustainability is theorised. And the same environmental sensitivity is clearly identified, but in parallel to a more traditional social sensitivity, and therefore not yet in a completely autonomous way.

And since then, however, a new literature starts, specific to environmental disclosure, and parallel to the social one, which has had a considerable fortune and a growth of even prompter attention. The first efforts are about to a 'national' environmental disclosure parallel to traditional National Accounts. Environmental information at the entity level, however, finds it hard to find its own identity. For over two decades, the development of literature and practice on the environmental disclosure allows some comparative evaluations considering the broader literature on the social one.

A very important document, which includes the current sensitivity to sustainability issues, and its wide applicability to various types of entities, was published in 2011 by FEE (Fédération des Expert Comptables Européens) which gave an introductive structure for integrated information, by means of key indicators on the social, environmental issues, but also on 'entity governance', defined as the qualitative part of entity's management. In this document it seems interesting to focus on the distinction between the *separate* and *integrated* reporting on sustainability, where integration refers to the combination of this information with the traditional economic and financial one. The document does not 'choose' between the two ways, but it shows them both as addressed to holders of different interests, and therefore both potentially necessary. The not symmetrical relationship that could be established between the two types of communication, at least in literature, represents an apparent paradox. The one about 'social' in fact, tends to encompass the second, as one of its most relevant chapters, and, accordingly, generally loses its self-sufficiency in regard to a specifically 'social' matter. Of course there are notable exceptions, as in Italy, where there is a robust line of study specifically dedicated to the issues of social reporting (Vermiglio 2000). On the contrary, the one about 'environmental' seems to claim a stronger autonomy, tending to expunge specifically social issues, not caring about the fact it has been coming out just from this previous social literature. Even a simple recognition of the scientific contributions appeared in major international journals shows a disproportion among the several contributions on environmental reporting and the few on the social, often inclusive of the previous one.

In comparative terms, another point is the difference in perspective. Social reporting is often 'entity', rather 'corporate', with progressive expansion to other sectors. The environmental, on the contrary, finds it hard to separate from the 'national accounting'. It presents some official documents that the former has not (even at UN level), but the entity's dimension remains generally atrophic, while public entities see environmental statements not like the environmental effects of public bodies activity, but rather as general reports on environment for the territory on which this entity exercises its power or sovereignty. However, the aspiration to a systematic language is their common issue, therefore released from non-accounting disclosure, statistics or similar. Even if the same term of 'statements' is not generally referred to balanced accounts of stocks and/or flows, as it happens in financial accounting, however, this tension to an integrated or systematic language, never achieved, remains.

Concerning the environmental disclosure contents (INTOSAI 2010), and trying some systematisation, this presents generally some premises largely common to the social disclosure, but more established tools, covering at least the following four areas:

1. **Flows of resources:** energy, inside the entity, outside the entity or between the entity and the environment, expressed in non-financial terms;
2. **Distinction of 'environmental' within financial reporting:** such as environmental recovery costs;
3. **Measurement of stocks and their flows:** 'position' of environmental resources, and their 'changes'/'performance ', both in physical and in monetary terms;
4. **Financial measurement of 'environmental effects' of the economic-administrative action:** in terms of consumption of non-renewable resources, and in terms of production/consumption (solid, liquid, or gaseous) waste, and—more rarely—of environmental recovery positive effects (for example, an action of reforestation).

Unluckily great variation in doctrine and practice is recorded until recent years and this does not allow a good assurance on environmental statements (Kolc ans Perego 2010). Another limitation peculiar to environmental reporting is the fact it is still mainly conceived as a purely informational and procedural instrument and not one which promotes accountability and sustainability simultaneously (Sheate 2012), at least if compared to the efforts endeavoured by the European Union along this direction.

3.3 Social and Environmental Disclosure in the Three Main Sectors of Economy

Social and environmental disclosure followed three different ways in correspondence of the three classic areas in which the entities can be distinguished: enterprises, public entities and non-profit organisations.

In enterprises, particularly in the major companies that list financial instruments in the capital markets, social and environmental information is mainly due to issues of corporate social responsibility. Therefore it is a tool that integrates the more traditional financial disclosure for the benefit of current and potential investors, which still maintains all its centrality. In a sense, social and environmental disclosure is, in enterprises, a projection of financial disclosure on a deliberately wider spectrum. To understand its nature it is necessary, then, to invoke some principles of financial disclosure for, after, broadening them into a social context.

The classical financial disclosure is primarily 'relevant for investment decisions' (*decision useful approach*), and—secondarily—for the discharge of administrators responsibility (*stewardship approach*). These two aims are achieved through comprehensive information on financial position and performance (stocks of assets/liabilities, flows of income/expenses, ownership's contributions/distributions, cash flows).

Starting from this simplified perspective, CSR presents a wider 'social contract' between the company and a wider audience of 'social investors' or 'stakeholders'. Now the 'investment' is not only of capital, but also of 'work', 'consumption', and generally 'entrustment' with reference to broader social goals, which no longer concern only categories of persons, but also the community as a whole and, even, the future, through which it opens to the reporting on the consumption of non-renewable resources. The social and environmental information then serves to guide the decisions of this range of users, current and potential, and whose represents their interests (i.e. 'state' also on behalf of future generations, as an abstract titular of 'Common Wealth'). Note that decisions now are no longer 'economic' decisions but only 'decisions'. There is also an evaluation on 'management performance', with following 'rewards' or 'punishments', even of virtual character, such as the social acceptance or disapproval.

It is not possible to present a universally accepted structure for social and environmental statements (Falcioni and Testai 2004). Moreover, the doctrine does not even agree on the possibility of having a homogeneous rigid structure or otherwise a heterogeneous flexible one. It seems possible just to find the contents of recurring themes among the various theoretical and practical achievement proposals. There is always a qualitative part, in which social or environmental phenomena are presented mainly by words, which is in turn distinguishable in a part that relates more to the 'inside' of the entity or 'outside', *i.e.* the relations with various stakeholders that do not directly participate to entity's production. There is, then, a quantitative part, in turn divided in different ways. A distinction is made between the parts of the social statement, or socio-environmental, derived or related to the proper financial statements and the part where the variables and social relations are treated independently.

Another part, partially overlapped with the previous one, is among the quantitative-monetary one (value added, reclassification of costs in social or environmental function, monetary quantification of positive or negative externalities) and the quantitative-physical one, especially with regard to environmental statements (acquisition and consumption of energy or similar values). Another distinction is, within the quantitative part, between the social report (sometimes called 'ethical-social') or environmental report *stricto sensu* and the quantitative information by means of indexes that represent social or environmental performance. Rarely is it possible to achieve a really systematic synthesis of environmental or social value available or created/destroyed during a financial year, for lack of a unit of measure that makes homogeneous and comparable the different variables under study (Moore 1997).

For exemplification, the issues addressed by social statements concern, typically: ethics codes, employment, 'distribution' of the added value through labor or other income, working and living conditions induced by the enterprise, training, industrial relations, generally external social relations, explication of stakeholders and specific activities for employees, social investments, good/service quality and related marketing initiatives, contribution to the health of consumers, and more. Moreover, the topics covered by the corporate environmental statements, concern, typically: topics related to health and safety, environmental sustainability in terms of consumption of non-renewable and renewable resources, quantification of pollution, costs or environmental investments, environmental indicators of position and variations, flows and stocks of used physical resources, in quantitative-physical terms or translated into monetary terms, environmental impact of the product life cycle. The environmental information, by its nature, is more structured and quantified than the social one. When the 'environmental costs' are studied, obviously in quantitative-monetary terms, these are generally divided into the following categories: costs of environmental prevention and protection, environmental management costs, costs of restoration and repair, depreciation of environmental assets. Studies on effects of a mandatory sustainability reporting for corporations are finally available in these last years (Ioannou and Serafeim 2016).

In public entities the social or environmental statement cannot be considered as an expansion or an integration of the traditional one because, technically, in many countries there is not an established tradition of financial statements but only of retrospective cash accounts: basically, a cash flow statement, with an appendix of assets and liabilities derived from inventories, with political purposes quite distinct from those of the financial statements of corporations. The social disclosure, therefore, is not an integration of social purposes to the main financial ones, but, on the contrary, the representation of the main purposes of the entity, although not expressed in financial terms. In other words, in public sector, financial reporting shows only the keeping of financial equilibrium, *i.e.* the availability of income and receipts that can cover the corresponding expenses and payments. It may also, through an appropriate cost accounting, represent the efficiency of management, in terms of the relationship between provided services and incurred costs. It cannot, however, in any way, represent the effectiveness of public management. The latter can be 'measured' just from a social accounting, summed up by a similar social report summary. In this sense we could better refer to 'public sector social impact statements', where it is possible to evaluate the non-financial social effect of public administrative action on the considered society. Of course the same principle is applicable for the public sector 'environmental statements', or for the 'environment' section of 'public sector social impact statements' at large. The most critical point of the environmental information concerns the mentioned overlapping between the entity profile *stricto sensu* (social or environmental impact of public action) and 'territorial' or national one (stocks and flows of social and environmental variables, in the considered 'society', and not in relation to the public administration action).

In non-profit organisations the context is, again, different. There is not to be found a real 'environmental statement' and in literature and in practice. The most developed part, here, is the social one, often targeted to the institutional social or ethical objective of the specific entity. In this case we refer to 'mission statements', sometimes perhaps to be seen as the proper entity's statements, since the stakeholders are typically interested just in non-financial results. The 'financial' statements or reporting is seen as merely instrumental to the previous ones for demonstrating the attractiveness of the resources needed to achieve entity's mission and the efficient use of resources by management. However, the diffusion, under various definitions, of this kind of statements through a so various set of entities, makes its structure even less liable to be standardised than in the other sectors, since here the 'social mission' is defined and specific for each kind of organisation, and it is not definable *a priori* for all entities of the sector. On the contrary in businesses, generally oriented to the creation of value or profit, social variables are more easily grouped together, as well as, in the public sector, the 'social impact' may well be generically addressed to all aspects of community welfare and not to a specific aspect, except in the case of functional government entities which, not surprisingly, can have 'mission statements' very similar to those of the 'non-profit' ones (let us think, for instance, to the case of public institutions for assistance and charity) (Torrecchia and Gulluscio 2014a, b).

4 Solutions and Recommendations

All the experience and doctrine so far developed, both on ethical and social disclosure, and on socio-environmental one, both in terms of CSR, and in terms of Non-Profit Organisations, brings an easily recognisable common denominator. It invests relations, internal to the entity, between the entity and its environment or even just environmental, of non-financial matter. It could be defined simply as *non-financial reporting*. Another characteristic is the expansion of scope for as concerns recipients of disclosure itself, beyond the traditional shareholders and potential investors. According to some authors the same investors do not suffer the social and environmental information as a pure constraint but they are increasingly involved and interested in it, as this is a tool to evaluate the overall business risk. However, a progressive integration of the various forms of information between them, between the social and the environmental one and between these two and financial reporting is to be recorded in the last years. A recurrent idea is the one of the 3-ple bottom line (financial, social and environmental) (Milne and Gray 2013). This integration has not had, however, a recognised path, although, since a long time, there is the idea of an integrated disclosure on these ‘three bottom lines’ (Elkington 1997). In these brief notes we too will attempt a synthesis model. Of course this theoretical attempt does not have any pretention of absoluteness, but only to give a contribution for an integration that could have the characteristics of brevity and rationality.

A first characteristic is the basic choice, about social and environmental information, for the *privileged reference to the entity vs. the ‘nation’ or ‘territory’*. The social reports, and especially the environmental reports, to achieve an adequate degree of maturity must be distinguished, then, from the ‘national’ or ‘local’ information. This means that, for methodological choice, the exclusively ‘environmental’ flows should be neglected, as not relating to the entity. These will be developed on the other hand by ‘national accounts’, parallel to the corresponding financial ones, which could share methods and systems with the entity’s level (as normally happens between firm and national financial accounting, both adopting, *e.g.* the double-entry method). It is adopted, then, a paradigm where there is a sharp cut between a reference ‘entity system’ and a relation ‘environment system’. ‘Non-financial’ stocks and flows, both within the entity and between this and its environment, are recorded, summarised and disclosed for stakeholders’ benefit. Only with this cut entity’s dimension will finally know the proper methodological development to the proposed information requirements it deserves. For the territorial public entities, this limitation may seem conceptually more difficult, even though essential, as essential is the distinction between the public sector accounts (for the public entities) and the national ones in financial domain.

Another characteristic is the fact that social and environmental reporting is based on some theoretical premises that could be summarised in the following principles: *sustainability*, *accountability*, *transparency* (Crowther-Aras 2008). These define the ESR (CSR) in all its dimensions and, the business ethics itself, seen as a set of institutional aims for the entity. From those ends, and the social responsibility areas that follow from them, a disclosure synthesis comes for stakeholders' benefit.

Any document of this kind seems to have always the following two parts: (1) a descriptive part; (2) a systematic part. The first contains, as traditional financial statements, the identity of the entity to which it refers, the introductory part, the definition of the *social identity* of the entity, the definition of the information areas and the subjects who are recipients of disclosure. A large section of this part should be dedicated to the implementation tools of the social or environmental policies, to their coordination, and finally to their representation and audit, with a connected methodology that will be the greater the more the representation and communication methods of social and environmental variables are not still universally accepted. The *second* is usually made by input and output tables between the entity and its environment for defined groups of values. Generally, they are 'flow' statements, while 'stock' statements are rarer. This part is made up of proper 'statements'; they can derive their values drawing them by financial accounts (reclassifications for social/environmental aims) by means of the so-called 'satellite accounts', but also with the introduction of self-detected values. The reclassification is basically a derivation method similar to that of the management accounts (where financial accounts are newly interpreted for management aims), according the methodology proposed in the IEEA model (Integrated Economic and Environmental Accounting), published in 2003 by the United Nations.

Social and environmental variables are sometimes expressed in physical terms, other times in monetary terms, because they are 'born' this way (*i.e.* the reclassification of environmental costs from the income statement).

The syntheses of the three domains of financial, social and environmental are not yet very common, despite the growing literature on integrated information. The integration, unfortunately, is still being seen more as a 'combination' between the three classes of variables, however, without even a common denominator, even within the two 'non-financial' fields. Thus, a synthesis model could be the following.

Integrated statements of an entity could be ideally divided into three areas, in relation of the classes of values dealt with. All the variables are translated or translatable into money terms. The following mathematical relations could lead the values represented in the primary statements (Table 1).

5 Future Research Directions

The great theoretical bet of recent years is to find a measure that is both monetary and conventional at the same time, so to give a homogeneous value which, however, is not the usual exchange value. The conventions are very different—let us consider, for instance, the 'environmental restoration costs'. Moreover, let us think to the literature on SROI (Social Return on Accounting) as an example of the generalisation of traditional indices of effectiveness and profitability to a more general context.

Table 1 A normative proposal for an integrated comprehensive 'economic' account on the three main domains of entities disclosure (financial, ethical-social, energetic-environmental)

Financial section
Income − Expenses = *Entity's Net Profit or Loss* (Capitalised and Distributed Earnings)
Net Profit or Loss + other Income of factors not included in Net Profit or Loss (Financial Costs, Wages, Rents, Taxes) = *Added value to market prices* (AV)
Ethical-social section
AV + Social Benefits translated in monetary terms − Social Costs translated in monetary terms = *Social-Economical Added Value* (SEAV)
Energetic-environmental section
SEAV + Recovery Actions translated in monetary terms − Net Consumption of natural resources translated in monetary terms = *Integrated Environmental-Social-Economical Added Value* (IESEAV)

The scientific research has not yet invested much along this direction. It is possible that an implementation of integrated statements information, as the proposed one, could lead to unpleasant surprises, like the possibility that IESEAV could be always, in an aggregate sense, negative and therefore that the unlimited capitalist development is destined to a cosmic failure. Integrated disclosure could give an idea of times and costs of this historic failure.

Alternatively, the integrated information could be provided for disclosure areas 'related' but not 'systematised' as above. In this case the 'financial', while being inserted in the 'social', would maintain its autonomy. The '*non-financial*' and properly '*social*' could concern the following information areas of research: income distribution, acquisition or change in non-property 'resources' to the availability for the entity (*i.e*. 'organisational culture' or know-how), creation or destruction of job opportunities and career development for the environmental context of relationship, creation or destruction of social security, dissemination of corporate culture in relation to environment, promotion of civic sense, legality, fight against exclusion, discrimination, social exclusion, and similar issues. '*Non-financial*' and '*social*' could also focus on funding for basic research or culture or other social impact activities, namely the construction of infrastructure, tangible or intangible, permanent and collective enjoyment with respect to contingent business investment, or 'societal influence', that is, the social and cultural resources absorbed by the entity from its relational context. The '*non-financial*' and '*environmental*' could concern, however, the following information areas of research: physical flows of goods, services and energies within the entity and between it and environment, environmental reclassification of financial flows, economic exploitation of the resources withdrawals from the environment, renewable or not, recycling of solid, liquid and gaseous substances released into the environment, enhancement of environmental restoration costs.

6 Conclusion

The brief *excursus* on social and environmental reporting affirms, as accepted in the contemporary context, the presence of these kinds of statements in the context of an entity social policy. It remains a gap between the profit-oriented entities (enterprises and, above all, corporations) and non-profit oriented ones (public or private). For the former, disclosure is 'only' an extension of stakeholders' audience and an extension of the risk management concept. For the latter, it is even more important, because it is the only tool that allows measuring the effectiveness of qualitative services. In both cases, the emphasis of the literature is sometimes on the 'document' itself and on elementary recording from which it draws its nourishment (a sort of social or environmental 'bookkeeping', the logical premise to the following 'statements'); other times, the attention is on the 'process' that produces that document, seen as a tool for the education of the entity and stakeholders, as 'good practice' that allows to develop virtuous circles and above all socially responsible 'behaviours'. In both cases, the extreme fragmentation of the adopted procedures puts severe restrictions on auditing capabilities.

After a rapid survey on the state of art, in summary, our chapter proposes the integration of the different types of entity disclosure primarily as a generalisation of the traditional financial one, in the awareness, however, that part of the doctrine believes that this generalisation is not acceptable, since it should pursue a path completely autonomous from the financial 'background' of entity's disclosure (Scerri and James 2009). This generalisation works along two directions. The *first* considers the domain of 'non-financial' resources. The *second* considers not only stocks and flows in entity's availability or 'internal' (in monetary terms or not they are expressed) but also flows of financial a non-financial resources toward the surrounding environment or 'external'.

Of course, the mentioned expansion of institutional disclosure inevitably leads to an expansion of the institutional purposes of the entity and to its correlation with the global sustainability of its social and economic action as in the 'Gaia' hypothesis (Lovelock 1979).

The introduction of social and environmental disclosure finally generalises the concept of 'institutional' finality itself, which may be referred to the sole entity or to the several larger contexts in which it is a participant, up to the global level. But the exploration of these issues would go beyond the scope of this chapter and it could be a starting point for further investigations and attempts of systematisations.

The proposed *excursus* is 'limited' therefore to summarise the current compromise between the various finalistic guidelines generally recorded in entities nowadays; this compromise looks never definitively achieved and it reflects, ultimately, the ethical and social awareness developed in a given historical, geographical and sector context.

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Theoretical Perspectives Concerning Modeling Consumer Behavior Influences on CSR and Marketing Roles in Shaping Consumer Perceptions

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Abstract Consumers are stakeholders of an organization in many ways having a complex dimension. They are primarily ultimate beneficiaries of products and services. Consumers are also members of society interested in environmental issues and fair trade, members of local community (where the organization has its headquarters in the region), can be employed, relatives or friends of employees, can be shareholders of the organization. Consumers can play an important role in the regulation of entrepreneurial behavior if they are willing to reward socially responsible organizations by changing their purchasing behavior (preferring products and services of those organizations that invest in social responsibility programs). In this paper we propose to create a theoretical framework to determine the influence of CSR actions on the purchasing behavior (using the seven core subjects of ISO 26000) and the impact of marketing and CSR communication (its channels and tools) on purchasing decisions. Within these bidirectional approaches we will focus on three issues: consumer expectations on CSR activities, the managers' perception on these expectations, and the decisions of managers on CSR actions and marketing tools and channels used for communicating CSR. Since there is a gap between these three aspects, it is highly important not only evaluating CSR activities but also consumer perceptions over these activities, and the effectiveness of marketing channels and tools used for communicating CSR. The proposed instrument allows organizations to evaluate these aspects and managers to make the best decisions concerning the selection of appropriate CSR activities, choosing channels and marketing tools to enable effective communication.

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1 Introduction

A socially responsible organization should address the concerns and satisfy the interests of the main stakeholders (Donaldson and Preston 1995; Jones 1995; Waddock 2000; Vlachos et al. 2009; Öberseder et al. 2013)—those actors who, directly or indirectly affect or be affected by organizations' activities. Over time there have been a number of studies about the effects of CSR on the reactions of various stakeholder groups (e.g. Creyer and Ross 1997; Turban and Greening 1996; Maignan et al. 1999; Sen and Bhattacharya 2001: Swaen 2002; Vlachos et al. 2009; Öberseder et al. 2013; Britt and Perks 2015).

In a research on the attractiveness of jobs, Turban and Greening (1996) showed that organizations that act responsibly in social terms are more attractive to young graduates of higher education institutions since they're part of a generation aware of social and environmental issues. Maignan et al. (1999) extended the benefits which social responsibility can generate on existing employees by highlighting a link between CSR actions and employee engagement. Social responsibility programs especially those involving local communities can help to establish a closer link between the organization and its employees.

Consumers are one of key stakeholder of the organizations (Folkes and Kamins 1999; Hunt and Vitell 1992). However, research that addresses the relationship between CSR activities and consumer perceptions that the key actors are quite rare (Beckmann 2006), the few studies investigating consumers and marketing management in this context. In addition, studies investigating consumer perceptions regarding CSR activities and their influence on CSR communication have limitations and do not allow their comparability and reproducibility.

There is a large amount of research that states that consumer interest in social responsibility is increasingly higher (Berens et al. 2005; Nielsen 2008; Vlachos et al. 2009; Öberseder et al. 2013; Britt and Perks 2015). In many consumer view organizations should engage increasingly in more social initiatives benefiting from such activities (Becker-Olsen et al. 2006; Nielsen 2008; Vlachos et al. 2009; Öberseder et al. 2013). A number of empirical research states that consumers are not only interested in social responsibility itself, but award some importance of organizations' engagement on CSR in the purchasing decision (Sen and Bhattacharya 2001; Nielsen 2008; Öberseder et al. 2013; Britt and Perks 2015). However there is no consensus regarding the evaluation of how consumers perceive organization's CSR efforts and which social responsibility initiatives are those most influential on the consumer behavior.

Another issue that is related to CSR programs influence on consumer behavior refers to organizations' CSR communication strategies that can significantly influence consumer perceptions and how they take purchasing decisions. Some of the results of qualitative studies indicate that many consumers appreciate discreet and non-aggressive communication which contradicts the increasing need to be as informed. Another problem which is given particular attention is the source of CSR information (in studies such as Swaen and Vanhamme 2004; Eisend 2006;

Beckmann 2006; Öberseder et al. 2013). Most studies are based on specific questionnaires concerning a particular area or a particular organization and therefore their results are either inconclusive or cannot be repeated in other particular cases. Bhattacharya and Sen (2004, p. 22) stresses the need for "better models of CSR measurement for identifying and assessing the effects of the organizations' CSR activities on stakeholders, including theirs customers."

This paper contains six sections. The first two sections present an introduction and a literature review on CSR influences on consumer behavior and marketing roles in shaping consumer perceptions. The third section describes the design of the research methodology. Section 4 is intended to describe gap model applied to CSR in which are presented and explained the gaps that exist between perceptions and expectations of consumers, the perception of organizations' managers on these perceptions and expectations, actions from the social responsibility program, CSR communication strategy. In Sect. 5 is created a statistical tool for research and evaluation of consumer perceptions about the actions of social responsibility programs and the analysis and identification of the most effective channels and marketing tools that are used in the communication of CSR strategy. Section 6 provide conclusions and establish future research directions.

2 Literature Review

Organizations face pressure and expectations from stakeholders to be socially responsible (Aguilera et al. 2007; Du et al. 2010; Simmons 2009; Öberseder et al. 2013). If they are not perceived as socially responsible there is a risk of being criticized by stakeholders, especially consumers who are increasingly aware of the organizations' impact on the environment and social issues (White et al. 2012). Because social responsibility programs can have a significant impact on consumer behavior (Wang and Anderson 2011), the extent to which consumers perceive CSR communication efforts plays a key role in how this fact is translated into benefits for organizations (Andreu et al. 2011; Green and Peloza 2011; Öberseder et al. 2013). CSR area is deficient in terms of researching ways to communicate CSR (Beckmann et al. 2006; Reisch 2006), especially concerning consumer perception on ways to communicate CSR (Podnar 2008; Bigné et al. 2012; Öberseder et al. 2013).

Following an exploratory research concerning influences of CSR initiatives on the consumer perceptions we found that in the CSR literature there are nor many studies on this issue (Sen and Bhattacharya 2001; Swaen 2002; Öberseder et al. 2013; Britt and Perks 2015). This is because it is hard to calculate a correlation and ensure comparability among these variables. There are a number of empirical researches that focused explicitly on consumer perceptions about CSR actions. There is research that also found a positive relationship between CSR initiatives of an organization and the attitude of consumers towards this organization and its products when making purchasing decision (Brown and Dacin 1997; Creyer and

Ross 1997; Öberseder et al. 2013; Britt and Perks 2015). Creyer and Ross (1997) believes that this positive influence is manifested when the perception of CSR actions exceed their expectations. In this case consumers' preferences for a product grow at the expense of product of the organizations not engaged in terms of social responsibility.

Sen and Bhattacharya (2001) go further and suggest that the actions of CSR may affect intentions and purchasing decisions of consumers not only indirectly by creating a positive image and increasing the organization's reputation, but also directly through certain areas of CSR that are more important for some categories of consumers. Sen and Bhattacharya (2001) added to the research in consumer perceptions on the CSR actions factors that are specific to the organization (CSR area in which involves organization and product quality) and individual factors specific (CSR support, beliefs about CSR) as factors moderators of consumer perceptions about CSR initiatives. They usually show that consumers tend to identify with the values of the organization whose products they buy (case of Apple products is relevant in this way).

Following an empirical research, Ferreira et al. (2010) showed that consumers perceive in appreciative manner the supply of a socially responsible organization and are willing to pay 10% more for the organization's product, judging that this price difference is correct. In addition, they found that social actions which directly impact consumer life influence his reactions more than social action that has an indirect impact. And other researchers indicate consumer preference for buying products from organizations with social responsibility programs (Barone et al. 2000; Sen and Bhattacharya 2001; Bhattacharya and Sen 2004; Vlachos et al. 2009; Öberseder et al. 2013; Britt and Perks 2015). The work of these researchers contributes to the understanding of the relationship established between the organization's social responsibility and purchase intent. As the consumers are more informed and they come from a responsible culture, the influence of organization's social responsibility programs on the purchase intent is stronger (Bhattacharya and Sen 2004). Subsequent studies have confirmed the importance that consumers give to the social actions supported by organizations (Auger et al. 2003; Mohr and Webb 2005; Serpa and Fourneau 2007; Ferreira et al. 2010).

Other researchers have also tried to emphasize the positive relationship between CSR and customer loyalty actions, but there are no conclusive results which showing an overwhelmingly negative influence or an overwhelmingly positive influence. Maignan et al. (1999) identified a positive relationship between CSR and customer loyalty actions. Ferreira, Avila and de Faria in their study from 2010 indicates that consumer behavior at the time of purchasing decision can be a decisive factor motivating organizations to adopt a socially responsible position to which may be added to other factors. Therefore, running social responsibility programs the organizations not only offer their own contribution to the welfare of society but at the same time respond to market needs by creating a good sentiment among consumers.

If the organization decides to run a specific socially responsible action, the type of action chosen can make a difference in consumers' reactions (Ferreira et al.

2010). When it decided on the action selected in the social responsibility program, organizations must clearly know which social actions is most appreciated by own consumers when they make their purchasing decisions. Therefore, the marketing strategy defined at national level should include actions that can be turned into local action, so as to be perceived as having a direct impact on the lives of consumers, achieving a positive impact on their purchasing behavior. To determine which social actions impacting consumers organization must conduct a serious analysis of how social responsibility actions influence specific consumer behavior, which actions are most relevant to consumers.

Consumers have become increasingly critical about the strategies of CSR communication organizations, influencing the way they make purchase decisions, forcing the marketing specialists of the organization to evaluate the use CSR as a tool for image and reputation (Bigné et al. 2012). However, due to an inadequate assessment of how consumers perceive CSR (Megicks et al. 2008; Podnar 2008; Bigné et al. 2012; Öberseder et al. 2013; Britt and Perks 2015), there is not a consensus on how to communicate CSR to consumers (Beckmann et al. 2006; Reisch 2006; Pomering and Johnson 2009; Du et al. 2010; Britt and Perks 2015). Research studies concerning the choice of the method of communication that transmit the most effective the CSR actions are inconclusive. Some researchers argue that methods of communication implied by corporate reports and websites are more efficient (Morsing et al. 2008). Others argue that explicit communication methods are more efficient, consumers relying on CSR communications to assess and make decisions to buy (Britt and Perks 2015; Schmeltz 2012; Wang and Anderson 2011), and awaiting to be informed openly about the positive and negative corporate behavior (Pomering and Dolnicar 2009). However, in the age of the Internet, Web 2.0 and social media, both implicit and explicit communication interfere enabling an enhanced interactivity and open debate between consumers (Mangold and Fauld 2009), within which organizations should participate and involved (Britt and Perks 2015). Marketing specialists of the organization believes that CSR is a promising tool for brand communication that can align organizations and their customers at a number of social and environmental values promoted by CSR discourse (Smith et al. 2010).

3 Research Methodology

Doing a review of the literature one can find that have not been developed scales for measuring consumer perceptions on CSR. There are few cases of scales linking CSR and consumer behavior (Wagner et al. 2008; Webb et al. 2008; Öberseder et al. 2013; Britt and Perks 2015), but none of them provides a comprehensive and generally recognized tool for measuring consumer perceptions on CSR and for identifying the most effective marketing channel and tool by which the organization can communicate CSR policies. In our view it is necessary to create a theoretical tool for measuring consumer perceptions on CSR to be accepted and used by as many researchers for several reasons:

- managers have difficulty assessing the perceptions and expectations of consumers (Phole and Hittner 2008), which may lead to inappropriate decisions taken by the marketing specialists of the organization on marketing strategies, channels and marketing tools used;
- tool can assists organization's marketing specialists and managers in assessing consumer perceptions on CSR (whether consumers perceive accurately or not CSR efforts of an organization) and take appropriate action;
- gives the possibility to other research to take over and expand the theoretical tool and facilitates the assessment of relations between consumers' perception of CSR and consumer behavior (Swaen 2002).

In this paper we propose to create a theoretical tool for assessing these influences of consumer perception on the actions from social responsibility program and efficiency of marketing channels and tools used in the CSR communication strategy. This theoretical tool is a statistical construct that is based on the seven core subjects of ISO 26000 (governance, human rights, employment, environment, fair operating practices, consumer issues, development and community involvement). This ensures the recognition and general acceptance of social responsibility actions that an organization can run. By creating this theoretical tool we intend to achieve the following several objectives:

- establish procedures for verifying statistical causal relations among the studied variables;
- assess the significance of CSR as a factor influencing the purchasing decision and therefore on the turnover of the organization compared to other factors influencing turnover, such as volume of sales on market, market share, marketing budget, subjective buying behavior, average market price, cost of production, inflation, pricing strategy;
- assess the influence of marketing channels and tools used in CSR communication on the consumers' purchasing decision, in order to understand what tools and channel could be effective and could exert greater influence power.

The proposed instrument can be applied in any organization enabling managers to choose those social responsibility actions that are relevant to industry and to select those channels and marketing tools that are most effective in communicating CSR toward theirs customers.

4 Gap Model Applied to CSR

Among the perceptions and expectations of consumers, the perception of organizations' managers on consumer perceptions and expectations, actions of the social responsibility program, CSR communication strategy there are some gaps. We believe that these gaps can be illustrated through a gap model applied to CSR. Therefore, we took over and developed Swaen's model (2002) which in turn is an

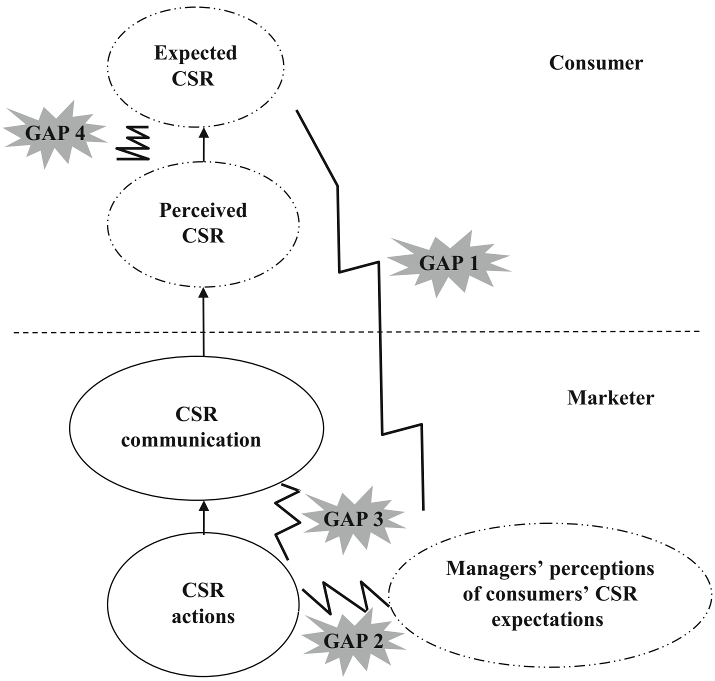

Fig. 1 Gap model applied to CSR. Source: Adapted after Swaen (2002)

adaptation of CSR to the model developed by Parasuraman et al. (1985) based on the analysis of service quality gaps (Fig. 1). The advantage of this model is that it presents consumers and marketing within the same representation which allows illustrating the influences that are established between CSR and consumer perception and between tools and marketing channels and fulfillment of consumer expectations.

Misunderstanding of consumer expectations by managers may cause an incorrect calibration of social responsibility program, may led to the choice of CSR activities that do not impact on consumers perceptions (Gap 1). It is essential for managers of organizations that implement CSR activities to have very good knowledge about needs and expectations of consumers regarding social issues and organization's social responsibilities. Therefore, organizations have to collect data coming directly from consumers by organizing meetings with consumers, creating a continuous dialogue with them or by establishing a system for sampling consumer perceptions on the actions of the organization's CSR and to determine the degree of influence of purchasing decision on CSR actions.

Second gap established between managers' perceptions about the consumer expectations of CSR and CSR activities implemented by the organization. This gap can occur due to constraints concerning proposed strategies costs, lack of managers' confidence in the effectiveness of the CSR actions, lack of expertise in identifying consumers' expectations regarding social causes.

Gap 3 occurs between CSR actions and communication to stakeholders of such actions. It is important that the marketing communication of CSR actions is correct and reflect the organization's CSR actions. To have a good communication is important for an organization to establish marketing tools and channels appropriate to address category of stakeholders and depending on CSR actions which are the subject of communication.

Gap 4 occurs between consumers' expectations and perceptions on CSRs. Consumers compare their expectations concerning CSR to what are offered them (CSR actions implemented). When will receive more than they expected consumers react favorably to the organization's actions, transferring this perception to the organization's products. It is therefore important to measure consumer perceptions because their reactions depend indirectly by CSR actions implemented. Consumer perceptions of the CSR actions are not only influenced by the CSR actions and the communication efficiency but also by communication to other groups (NGOs, pressure groups, the media, government, etc.) and value of its consumer, especially by the expectations in the area of CSR.

5 Statistical Model for Determining the Model Influences

In Fig. 2, we have illustrated the influences among the variables of the model. The actions from social responsibility program have a greater or lesser influence on consumer behavior and purchasing decisions of those. The way that these influences are exerted is CSR communication carried out by the organization through the channels and tools marketing. The influence of purchasing decisions change is felt through changes in an organization's sales (turnover). Turnover variations influenced management decisions including the selection of those actions of social responsibility which would lead to an increase in sales due to improved reputation and image of the organization.

Variables that characterize CSR area will be classified in first rank variable (the seven core subjects of ISO 26000: governance, human rights, employment, environment, fair operating practices, consumer issues, development and community involvement) and variable second rank (issues detailing the seven core subjects from ISO 26000). These variables can be found in Table 2.

Variables that characterize marketing communication refer to marketing channels and marketing tools (Table 1).

To determine the influence of CSR actions on the purchasing behavior (using the seven core subjects of ISO 26000) and the impact of marketing and CSR communication on purchasing decisions we use two questions that will be applied to the CSR variables and marketing variables (Table 2):

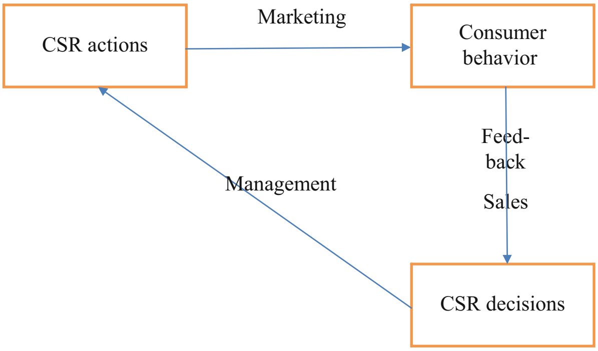

Fig. 2 Influences established between the model's variables

Table 1 Marketing variables

Marketing tools	Advertising—Ad
	Promotional activities—Pa
	Public relations—Pr
Marketing channels	Traditional media—Tm
	Audiovisual media—Am
	Digital media—Dm
	Social media—Sm

– to measure consumer perceptions concerning the impact of CSR actions on the purchasing behavior: please state on a scale from 1 to 5 if you influenced by the CSR action in the decision to purchase a product
– for determining marketing tool and marketing channel through which the consumers were informed about the CSR actions: please answer with yes (coded with value 1) or not (coded with value 0) to the question which of the following marketing channels/tools you acknowledge that the organization carries out CSR action. The options are Advertising—Ad, Promotional activities—Pa, Public relations—Pr (in the care of marketing tools) și Traditional media—Tm, Audiovisual media—Am. Digital media—Dm, Social media—Sm (in the case of marketing channel).

After determination of the most effective channels and marketing tools for each CSR actions, organization can reconfigure the CSR program by giving up some actions or by using other channels or other marketing tools to communicate better on the CSR actions.

The grid contains an extensively number of variables. In the research conducted, the organization can only use CSR variables where the organization takes actions which are communicated to consumers through marketing tools and marketing channels. It calculates the average for each of the CSR first rank variables and determines which of these is most important in consumers' minds when they decide to purchase a product. Also it can be calculated a general CSR index in order to ensure comparability over time and with other organizations acting in similar areas.

Table 2 CSR and marketing variables

CSR actions variables				Marketing variables						
				Marketing tools			Marketing channels			
	First rank variables	Second rank variables	Scale x_i	Ad	Pa	Pr	Tm	Am	Dm	Sm
CSR Index $C=\sum_{1}^{7}\frac{y_v}{6}$	Human rights $y_1=\sum_{1}^{4}\frac{x_i}{4}$	Discrimination and vulnerable groups	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Civil and political rights	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Economic, social and cultural rights	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Fundamental principles and rights at work	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
	Labour practices $y_2=\sum_{5}^{10}\frac{x_i}{6}$	Employment relationships	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Conditions of work and social protection	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Social dialogue	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Health and safety at work	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Human development and training in the workplace	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Adequate remuneration	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
	The environment $y_3=\sum_{11}^{15}\frac{x_i}{4}$	Prevention of pollution	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Sustainable resource use	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Climate change mitigation and adaptation	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Protection of the environment, biodiversity and restoration of natural habitats	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1

	Fair operating practices $y_4 = \sum_{16}^{22} \frac{x_i}{6}$	Anti-corruption	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Responsible political involvement	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Fair competition	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Promoting social responsibility in the value chain	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Respect for property rights	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Provide fair terms and conditions for suppliers	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
	Consumer issues $y_5 = \sum_{22}^{29} \frac{x_i}{7}$	Fair marketing, factual and unbiased information and fair contractual practices	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Protecting consumers' health and safety	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Sustainable consumption	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Consumer service, support, and complaint and dispute resolution	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Consumer data protection and privacy	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Access to essential services	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Education and awareness	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1

(continued)

Table 2 (continued)

CSR actions variables				Marketing variables						
				Marketing tools			Marketing channels			
	First rank variables	Second rank variables	Scale x_i	Ad	Pa	Pr	Tm	Am	Dm	Sm
	Community involvement and development $y_6 = \sum_{30}^{37} \frac{x_i}{7}$	Community involvement	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Education and culture investment	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Employment creation and skills development	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Technology development and access	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Wealth and income creation	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Health investment	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Social investment	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
	Organizational governance $y_7 = \sum_{38}^{40} \frac{x_i}{3}$	Ensure economic success of the company by doing successful business	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Invest capital of shareholders correctly	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1
		Provide sustainable growth and long-term success	1…5	0/1	0/1	0/1	0/1	0/1	0/1	0/1

To determine the effectiveness of marketing tools and marketing channel in transmitting CSR messages depending to the first rank variables, second rank variables, and all CSR variables it can calculate the following coefficients:

$$r_{ij} = x_i \times z_{ij}$$

r_{ij}—importance of marketing tool and marketing channel depending on second rank CSR variables,

x_i—second rank CSR variables,

i—the number of variables CSR

z—channels and marketing tools

j—number of channels and marketing tools

$$r_{vj} = \sum_{j=1}^{7} x_i \times z_{ij}$$

r_{vj}—importance of marketing tool and marketing channel depending on first rank CSR variables,

$$r_j = \sum_{j=1}^{7} r_{vj},$$

r_j—Total importance of marketing tool and marketing channel for influencing consumers.

Afterwards it compare all levels of coefficients on all level of CSR variables and choose the most effective marketing tool or channel for a given action or for the entire program of social responsibility. Comparability of data can be done also using historical data or with data from other organizations.

Another objective of the paper was to construct a model for assessing the significance of CSR as a factor influencing the purchasing decision and therefore the turnover of the organization compared to other factors influencing turnover, such as total volume of sales on market, market share, marketing budget, subjective buying behavior, average market price, cost of production, inflation, pricing strategy. To do this we have defined two first rank variables whose product represents the turnover of an organization: sales volume and price. In turn these first rank variables are decomposed into second rank variables (Table 3).

The calculation formulas established between variables that characterize turnover will be following:

$$Gt = \sum_{i=1}^{p} P_i * Sv_{ii}$$

Table 3 Sales volume

	First rank variables	Second rank variables
Gross turnover—Gt	Sales volume—Sv	Total volume of sales on market—Tvs
		Market share—Ms
		Marketing budget—Mb
		CSR index—Cs
		Other variables influence—Ovsv (including Subjective buying behavior—Sb)
	Price—P	Average market price—Ap
		Cost of production—Cp
		Inflation—I
		Other variables influence—Ovp (including Pricing strategy—Ps)

$$P_i = f(Cp_i, Ap_i, I, Ovp_i)$$

$$Sv_i = f(Tvs_i, Ms_i, Mb, Cs, Ov_{svi})$$

i—organization's products and services

The two functions that define the first rank variables (sales volume and price) were built starting from the values of these variables in the previous period to which we add the positive influences and subtract the negative influences of second rank variables. Influences of variables are calculated as Pearson's correlation coefficient that shows us what the relationship established between the dependent variable (first rank variable) and the dependent variable (the second rank variable).

$$P_{i1} = P_{i1} \times \left(1 + \frac{\Delta Cp_i}{Cp_{i0}} \times I_{Cp_i} + \frac{\Delta Ap_i}{Ap_{i0}} \times I_{Ap_i} + \frac{\Delta I}{I_0} \times I_i + \frac{\Delta Ovp_i}{Ovp_{i0}} \times I_{Ovp_i}\right)$$

$$Sv_{i1} = Sv_{i1} \times \left(1 + \frac{\Delta Tvs_i}{Tvs_{i0}} \times I_{Tvs_i} + \frac{\Delta Ms_i}{Ms_{i0}} \times I_{Ms_i} + \frac{\Delta Mb}{Mb_0} \times I_{Mb_i} + \frac{\Delta Cs}{Cs_0} \times I_{CS_i} + \frac{\Delta Ovsv_i}{Ovsv_{i0}} \times I_{Ovsv_i}\right)$$

I_{Cp_i},I_{Ap_i},I_i, I_{Ovp_i}—influences of variables on the price calculated as Pearson's correlation coefficient,

I_{Tvs_i}, I_{Ms_i}, I_{Mb_i},I_{CS_i}, I_{Ovsv_i}—influences of variables on the sales volume calculated as Pearson's correlation coefficient.

This model requires an application over a great period of time. It determine the impact of CSR index (consumer perception concerning the influence of CSR actions on the purchasing behavior) on turnover at different times using Pearson's correlation coefficient. The next step is to compare the influence of CSR index on the turnover with other influences generated by other variables. Analysis of these influences allows managers to make better decisions regarding the policy mix, including in the area of CSR.

Statistical model, which we proposed, is built on three levels to enable any organization to do research in three ways:

- quantifying the influence of CSR actions the consumers' purchasing decision;
- determine the influence of channels and marketing tools used for CSR communication on consumers' purchasing decision to find the most effective marketing tool and channel;
- assessing the impact of CSR actions on the turnover of the organization and comparison with other factors influencing turnover.

After applying the questionnaire (consisting of two questions and response options that are found in Table 2) to a representative number of consumers, organization will calculate indicators reflecting the influence of CSR actions on the consumers' purchasing behavior and coefficients reflecting the influence of channels and marketing tools used for CSR actions communication on the purchasing decision.

CSR actions impact assessment on the turnover is done by calculating the Pearson correlation coefficients between components of turnover and influencers. Among these is also calculated the CSR index according to the methodology from Table 2.

After analysis organization may waive those CSR actions which have a weak influence on the purchasing behavior and will focus on actions with a stronger influence. Purchasing decisions are influenced by organization's image and reputation which in turn are influenced and through CSR programs. Consequently CSR decisions will have an impact on turnover and profit organization. Therefore, an integrated CSR program in organizational strategy built on relevant statistical data collected and processed on a clear and uniform methodology will lead to organization's success in the market in which it operates.

6 Conclusions and Further Research

If consumers are willing to reward socially responsible organizations by changing their purchasing behavior (preferring products and services of those organizations that invest in social responsibility programs) this means that CSR can play an important role in the regulation of entrepreneurial behavior bringing significant benefits to society as a whole. To be able such a significant influence it is necessary that information about social responsibility programs to be available in an understandable and reliable manner, and accessible to a large segment of the population. Consumers must attain a level of knowledge, education and awareness about social responsibility that allows them to make choices based on the organization's commitment to social responsibility policies.

While managers argue that holistic vision on CSR is important (vision obtained through aggregation of CSR areas) most consumers do not fully understand the concept of social responsibility because it is too large and complex. They perceive only certain areas or actions that they have in mind in assessing the organization responsible behavior. Consumers attach a differentiated importance depending to these areas. Measuring consumer perceptions on these areas of the organization allows marketing specialists and managers to assess the impact of specific CSR actions on consumer attitudes towards the organization. In this paper we proposed a theoretical statistical research instrument that assess consumer perceptions on the actions of social responsibility programs, analyze and identify the most effective channels and marketing tools that are used in the CSR communication strategy. Based on these assessments, managers and marketing specialists of the organization can develop and adapt its program of social responsibility and their CSR communication strategy to address the specific concerns of consumers. The proposed instrument allows comparison over time within the same organization, between organizations, based on the seven core subjects of ISO 26000. In a future empirical research will test this tool within an organization to further develop and improve it.

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Impact Analysis of the Relationship: Intellectual Capital, Performance and Social Responsibility of the Organization

Dalia Simion and Daniel Tobă

Abstract Profound transformations manifested in the global and complex business environment generated changes in the development strategy of the companies, which understand that achieving a sustainable competitive advantage is based on a competitive workforce and increasing labor productivity is possible through the global development of human capital. The development of knowledge based economy has led to a new general concept, that of intellectual capital. Intellectual capital or its components cannot act individually, but only in tandem with other resources of the company enabling sustainable value creation in the future. Sustainability is understood as satisfying both economic and non economic interests of all stakeholders, from shareholders, capital providers and employees up to the entire community. Thus, in recent years, there has been a notable rise in the number of companies implementing social responsibility in their strategy. Intellectual capital and corporate social responsibility have become the most powerful factors determining the firms' adaptation to the changes of business environment. This paper aims on one hand, to analyze the impact of intellectual capital on company's performance, seen in financial and non-financial terms, and on the other hand, to analyze the interaction between intellectual capital and social responsibility activities of companies, elaborating a conceptual model that explains the interactions in the trinomial: intellectual capital, performance and social responsibility.

1 Introduction

In the last decade, the economic environment has been marked by profound changes, all companies facing a number of key issues such as globalization and hence increasing competition. Thus, the development of information and communication technologies, changes in consumer behavior and the increase of intangible assets role are factors affecting the competitiveness and development of companies.

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Human capital and its influence on economic growth and performance can contribute to strengthening the position of a country or company. It is obvious that through modern communication and information technologies the rapid spread of knowledge will reduce temporal and spatial disparities in human activities and this process will affect human society in all its aspects: economic, social, political, cultural.

The economic activity of this stage of evolution of society is characterized by major changes compared to traditional economy. It is an economy based on the rapid exchange of information in real time. The term that defines this stage of development of economy is "new economy", which was first used in the mid 1990s, and is the result of structural changes occurred in the last decades of twentieth century, mainly due to technological innovations and the effect of globalization process.

The main feature of this new economy is that intangibles are more important than the fixed assets. In knowledge based society "*the knowledge based economy (digital economy, on-line market) is very important, crucial and essential and includes the use and management of existing knowledge, both technological and organizational ... a new economy in which the innovation process is decisive*" (Drăgănescu 2002). Also, workforce flexibility and its growing capacity for innovation, capable of producing a higher added value, involves an issue of human resource management in the sense of discovering and keeping the employees who are able to bring added value to the organization based on the knowledge gained. Employees of the new economy will be different than those working in traditional economy by being subjected to a process of continuous learning and permanent professional development.

In response to the profound changes manifested in the global and complex business environment, most organizations have understood that achieving a sustainable competitive advantage is based on a competitive workforce and increased labor productivity is possible through the global development of human capital. The development of knowledge based economy has led to a new general concept, that of intellectual capital. Intellectual capital is a resource created, purchased and preserved by an organization, which does not have tangible form, but contributes to value creation together with material and financial assets. Intellectual capital or its components cannot act individually, but only as an ensemble with other resources of the company enabling sustainable value creation in the future. Sustainability is understood as satisfying both economic and non economic interests of all stakeholders, from shareholders, capital providers, employees up to the entire community. Thus, in recent years, there has been a notable rise in the number of companies implementing social responsibility in their strategy. Intellectual capital and corporate social responsibility have become the strongest factors determining companies to adapt to business environment changes.

2 The Relationship Between Intellectual Capital and Company's Performance

The theory of human capital has undergone a series of changes over time, one of the main issues being to separate this concept from the concept of gross labor. Human capital has profitability as its essential feature. According to Mincer (1958), the profitability of human capital is equivalent to the amount of investment made to obtain human capital.

Becker (1962) argued that not only material assets but also human capacities can accumulate and become a capital stock. Mobility as an essential feature of human capital also provides flexibility and widening the potential of human resources as a factor of growth and economic development (Neagu 2008). Intellectual capital is a general concept that emerged in recent decades with the development of innovative economy.

Over time were given numerous definitions of intellectual capital and from their analysis the following conclusions are drawn:

– The concept of value creation occurs frequently in the definition of intellectual capital, suggesting that its use implies an increase of the organization‘s value;
– Most definitions contain essentially the following words: knowledge, skills, know-how, experience, intangible assets, hidden value of companies (Bontis 2001), information, processes and value creation.

Intellectual capital is a resource created, purchased and preserved by an organization, which does not have tangible form, but contributes to value creation together with material and financial assets. Intellectual capital or its components cannot act individually, but only as an ensemble with other resources of the company enabling sustainable value creation in the future. The ever-changing business environment requires businesses to build dynamic business plans, including creativity and innovation, to ensure their sustainability in the marketplace. The contribution of intellectual capital is significant in increasing the competitiveness of firms (Barney and Clark 2007).

Intellectual capital is divided into three major categories:

– Human Capital;
– Relational Capital;
– Structural Capital.

Human Capital refers to the knowledge, skills and experience, talent and creativity that individuals have, and employees take those along with them when they leave the organization. Human capital refers to the combined knowledge, skills, experience, creativity of the workforce, attitudes and motivations, all embedded in the collective capacity of entities to extract the best solutions (Gates 2010). This component of intellectual capital is mainly characterized by the fact that it does not belong to the company, but is a basic resource in the competitive battle of enterprise on the market.

Structural Capital (organizational) is understood as the organizational and financial structure of an enterprise represented by the knowledge which remains

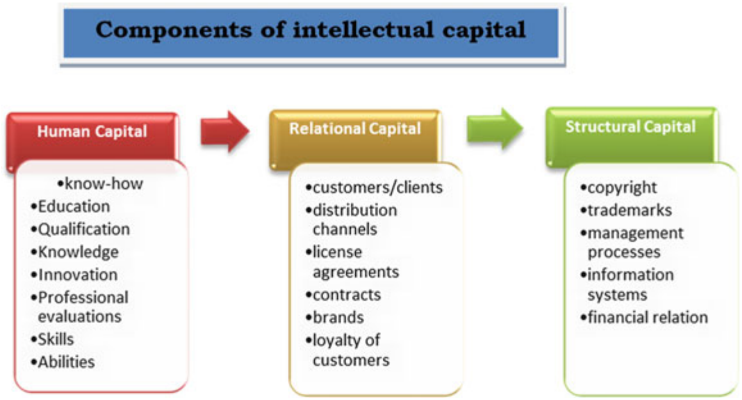

Fig. 1 Intellectual capital structure

within the company, including strategic processes, procedures and organizational systems, information technology, databases, information technology, organizational skills that support staff productivity and contribute significantly to gain a better market position by an increased value added. Unlike human capital, structural capital belongs to the company and is considered the second most important resource of it.

Relational Capital represents all resources related to the external relations of the company, such as customers, suppliers, partners in research and development. Relational capital includes the share of human capital and structural capital involved in the company's business relationships with investors, creditors, customers, suppliers and others, relating to customer satisfaction, connections with suppliers, negotiating ability, social responsibility activities, etc.

Intellectual capital components (summarized in Fig. 1) have no significant value when considered individually, but the interaction between them and their functioning as a system generates value for the company.

The different conceptions that concern value and changes that appear within companies lead to a new definition of value. Value is not anymore defined as a single number, thus it comes from different sources, fact that requires as necessary its balancing with quantitative and qualitative data and its observing both from the financial perspective as well as from the non-financial one. Data can refer to value contribution at the tactical level (implemented activities) or at the strategic level (the investment profitability in human capital) (Simion et al. 2009). After the 1990s, in the evaluation methods of enterprises, the attention was turned from financial aspects and techniques to intangible assets and knowledge. Only by encouraging intellectual capital in the enterprise, it will be able to remain competitive and fight against competitors, creating a sustainable competitive advantage. This is why an organization must evaluate the intellectual capital and its components, and then monitor and develop its performances.

3 Intellectual Capital Versus Organizational Performance

In a traditional approach, the evaluation and management of an enterprise's performance does not consider the notion of knowledge, focusing exclusively on the financial results presented in the financial statements.

During the 1980s, some authors (Kaplan and Johnson 1987) have argued that performance management systems based solely on financial results are unable to meet the modern needs of the company, proposing more comprehensive approaches that took into account non financial information as well. Consequently a series of performance measurement models were created and used more or less widespread.

3.1 Balanced Scorecard

The first model for the measurement of a company's performance, which includes nonfinancial variables, was Balanced Scorecard developed in 1992 (Kaplan and Norton 1992). The model focuses on four strategic areas of information:

- finances,
- customers,
- internal business processes,
- innovation and learning.

The Balanced Scorecard model represents a support in the development and management of a company's strategy, combining key elements of progress and providing an overview of the global strategy by including, in addition to financial measures, some key insights:

- customer perspective, addressing how the customer sees the company (such as: market share, satisfaction and customer loyalty surveys, relationships with suppliers);
- internal businesses perspective, leading the company to identify those actions that it needs to excel (e.g. effective measures for work practices and production processes, reduction of production cycle time, decrease of unit costs, scrap rate cuts, etc);
- innovation and learning perspective, addressing how the company should improve their business operations and create value in the future (new ideas and suggestions from employees, staff satisfaction, increase of qualification levels, staff attitude).

Balanced Scorecard model enables a comprehensive approach to a company's strategy because it is based on the relationships between objectives and related activities, being flexible and adaptable to any organization. The model is not based on control as in the traditional performance measurement systems, but focuses on strategy and vision, being consistent with the concepts of functional integration, customers-suppliers partnerships, continuous improvement and team responsibility.

3.2 Performance Pyramid

Performance Pyramid (Fig. 2) is a second generation model of evaluation and management of performance, developed by the Cranfield School of Management, who takes into account a global approach to the interests of all stakeholders, not just investors but also clients, intermediaries, employees, suppliers, regulators and the community.

The Performance Pyramid model examines the mutual relationship and sharing process with all parties concerned, by using strategies (corporate, operational, brands, products, services), processes (product and service development, planning and management organization), and most importantly, capabilities (people, practices, technologies, infrastructure) that are necessary to meet the needs and desires of stakeholders. The flexibility of this model enables its application in any organization. However, the emphasis put on intangible assets as factors determining the growth of performance creates the framework for assessing the intellectual capital of companies. It creates a picture of how different performance areas interact.

3.3 Analysis of Knowledge Assets

Addressing knowledge assets takes into account the knowledge-based vision of a company and has been developed to help companies identify and assess their assets based on knowledge and their contribution to value creation. Once identified,

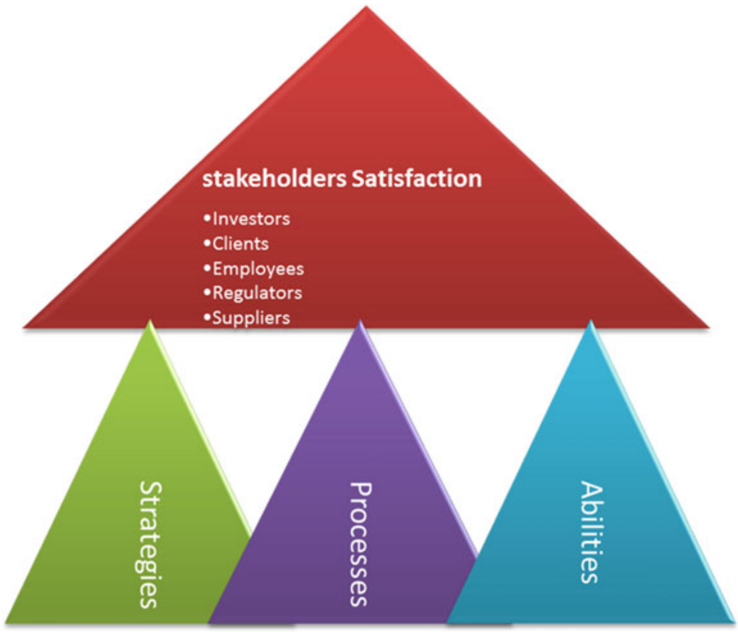

Fig. 2 Performance pyramid

knowledge assets can be easily integrated into various performance evaluation models. Knowledge assets are identified as a sum of two organizational resources: stakeholders and structure. This distinction reflects two key components of any company: its actors, which can be internal or external, and its component parts or elements on which organizational processes are based (Fig. 3).

Resources of stakeholder are shared in the relations between them and human resources. Stakeholder relations shall include any form of relationship established by the company with stakeholders from licensing agreements, financial relationships or contracts, distribution agreements to customer loyalty, which is a fundamental connection between the company and one of the interested parties. Human resources contain information provided by employees in various forms of skills like motivation and loyalty. The key components are the know-how, technical expertise and solving problems of creativity, education and attitude.

Structural resources are divided into physical and virtual infrastructure. Physical infrastructure refers to infrastructure tangible assets, such as IT equipment, which is often neglected as an asset of knowledge, but plays a vital role in disseminating knowledge.

Virtual infrastructure takes into account culture, procedures and practices and intellectual property. Organizational and management culture is of fundamental importance for the organization's efficiency, focusing on the values, mission and strategy of the organization. Procedures and practices applied include norms, rules, databases, management styles, which determine how the activity is conducted in an organization. Intellectual property refers to all patents, copyrights, trademarks, instruments that allow the company to create value.

This structuring (Fig. 4) can be used to identify knowledge assets, which can provide afterwards the basis for the discovery of how these assets are interdependent and transformed to meet the needs of stakeholders.

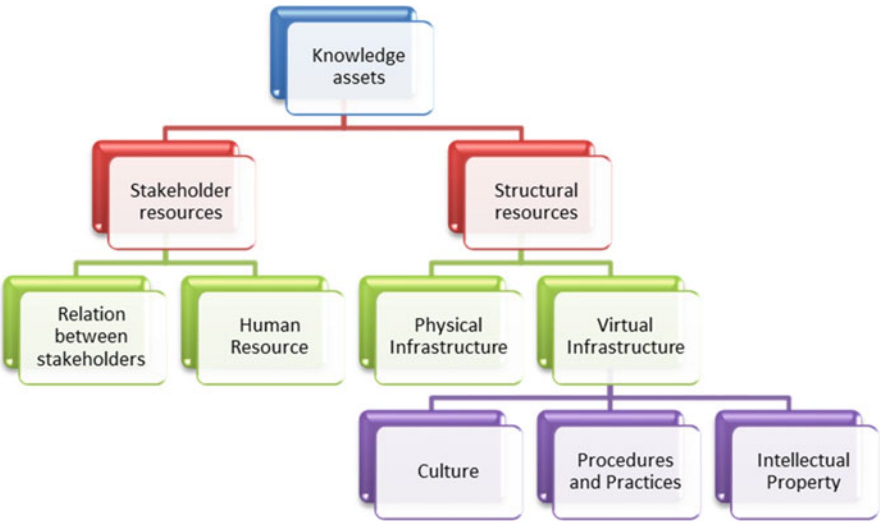

Fig. 3 Components of knowledge assets

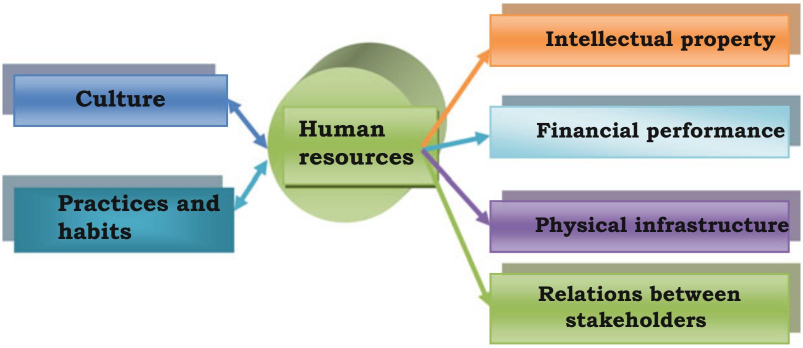

Fig. 4 Interdependence of knowledge assets in a company

Knowledge assets are different from one company to another and therefore their recognition and assessment is difficult. A number of indicators are used to measure knowledge assets, since there isn't any system widely accepted and applied to all organizations.

Human resources are assessed using:

- demographic indicators such as number of employees, company seniority, seniority at job, the percentage of permanent staff in total employment, the number of female/male managers, etc;
- competence indicators such as number of highly skilled/educated employees, number of employees with PhD/Master in total employment, number of years in the profession, etc.;
- attitude indicators, such as the average level of satisfaction (measured a Likert type scale), savings resulting from the implementation of the employees' suggestions, number of new solutions, products and processes suggested by staff, qualities of employees (loyalty, commitment, entrepreneurship, enthusiasm), motivation and behavior indicators;
- human resource management indicators, such as vocational training expenses, turnover per employee, period of training, expenditures for development of social and personal activities for employees, indicators related to recruitment practices, etc.

Stakeholder relations are quantified by the number/quality of the agreements of partnership, distribution, licensing, but also by partners' satisfaction indices, etc.

Culture is a knowledge asset that can be assessed by the management philosophy, number of internal disputes and complaints, indicators of employees' satisfaction, motivation, behavior, commitment, loyalty, etc.

Processes and routines are measured by the number of coded processes, network practices, standards, databases available, Intranet services, etc.

Intellectual property refers to the income obtained from patents, number of patents and registered designs, copyright value, trademarks, value of patents compared to the costs of research and development, etc.

4 The Intellectual Capital and Corporate Social Responsibility Relationship

The companies are nowadays facing increasingly higher competition, as well a growth of business opportunities but also of risks. In the development of their business strategies, two important concepts, namely intellectual capital and social responsibility, were essential. Over time, these concepts have evolved and have been developed independently of each other, with no interconnections. But lately, it appears that between intellectual capital and corporate social responsibility there are multiple links, which leads us to address them in a convergent manner.

The concept of corporate social responsibility goes back more than four decades ago, starting with the foundation of multinational corporations and it is considered therefore a consequence of globalization.

Corporate social responsibility is a set of practices, policies and programs developed within the companies' strategies so that they take into account social and environmental issues in order to create an effective relationship between the business environment and the society in which the company operates.

The objective of companies' managers was, for a considerable period of time, maximizing profits without paying attention to the effects on stakeholders such as: employees, environment, suppliers, etc. In recent decades, companies have realized the relationship of interdependence between the company and society, their competitiveness largely depending on the degree of integration of corporate social responsibility practices within their business strategies.

The companies should not be focused only on maximizing profits or increasing market share, but they should have as main objective the efficient allocation of resources in order to maximize the market value of the company, which is precisely a corporate social responsibility strategy (Rhys Jenkins 2005).

The essence of corporate social responsibility is that corporate behavior means not only granting the profitability of shareholders, employees' wages and consumer products and services, but it must meet the requirements and values of society and the environment as well.

Through a proactive approach to the business strategy and direct relationship with the environment in which they operate, companies will generate and maintain a competitive advantage.

Long-term success of companies is increasingly more influenced by three important elements:

– Leadership,
– Business ethics
– Ethical and moral values.

An unethical managerial behavior can lead to corporate failures. Social responsibility is based on the conduct of entrepreneurs and top executive management of companies, which must give strategic importance to the ethical and moral values. They are a key component of the entire organizational culture, which affects the companies' activity such as competitive strategies, personnel policies and relations

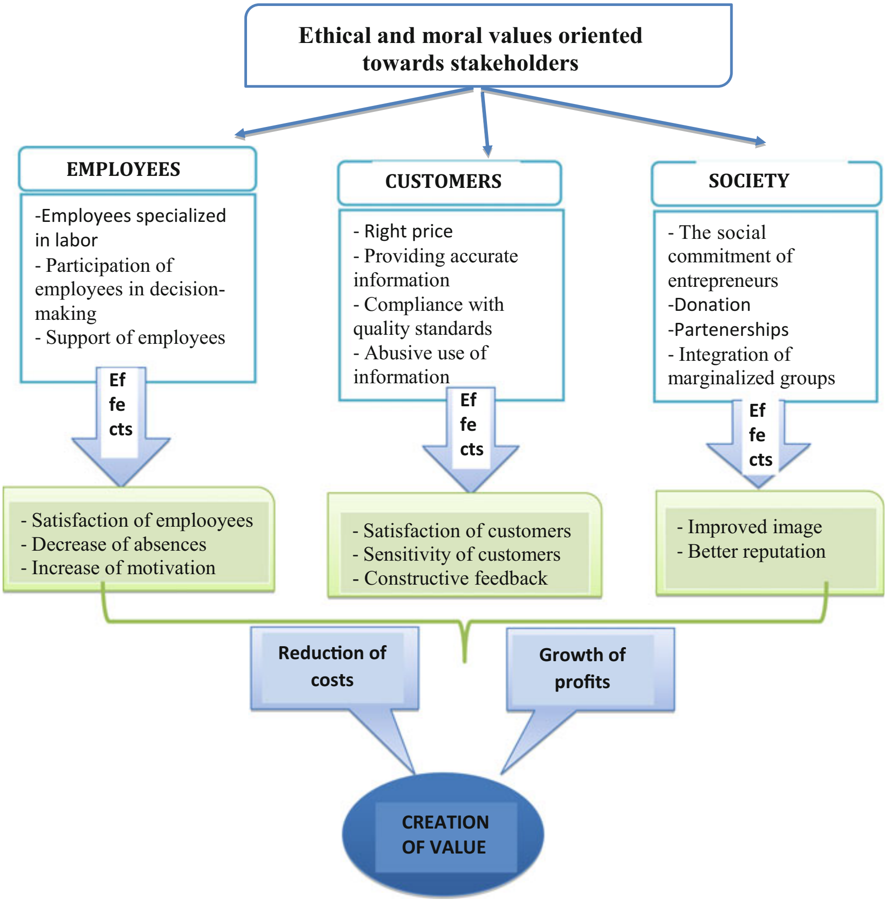

Fig. 5 Ethical and moral values of CSR

with different stakeholders (Hunt et al. 1989). Companies that record high performances benefit from a set of well-defined ethical and moral values, which allows us to say that they are part of the business strategy (Pedrini 2007). Corporate social responsibility should be understood as being oriented towards both the processes and the results, as shown in Fig. 5.

The value of companies is generally recognized based on its future profits. Therefore, all stakeholders have given them an increased attention, particularly to their sustainability. A fundamental role in social responsibility activities belongs to intellectual capital. Innovations are created primarily by investment in intangibles. The new products, services, and processes are generated by the innovation process. When such investments are commercially successful, they are transformed into tangible assets creating corporate value and growth (Lev 2001).

Intellectual capital and corporate social responsibility are two very important concepts used in modern management of companies. For some time, these two

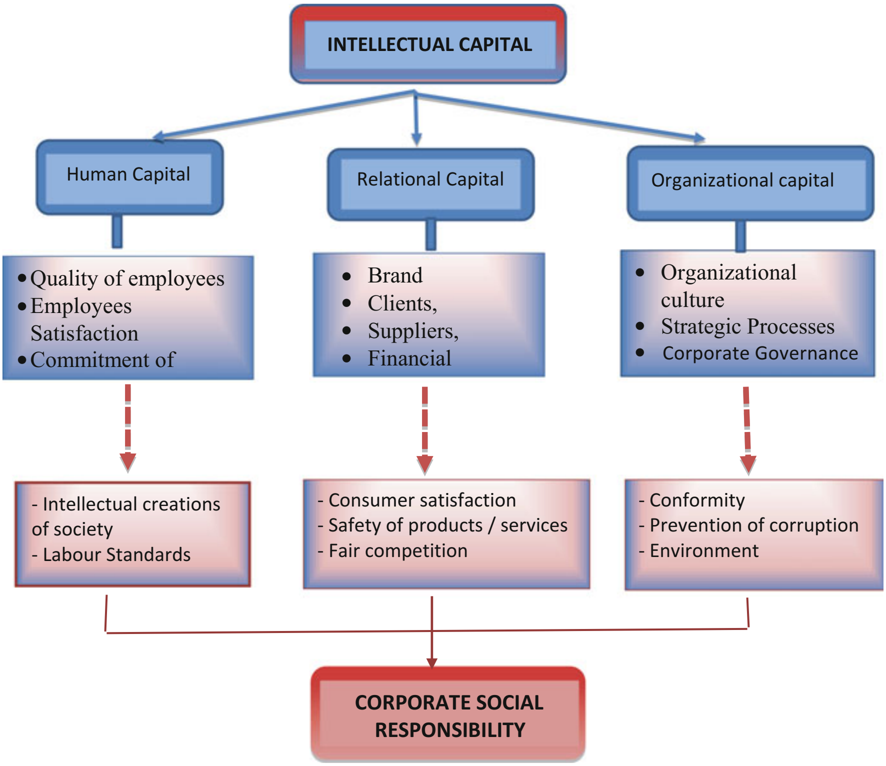

Fig. 6 Intellectual capital

concepts have been developed independently of each other. Lately, it can be noted that they have multiple connections, even overlaps in some areas of manifestation, which determines the treatment of the two concepts together.

Intellectual capital can be regarded as an element of corporate social responsibility, in the sense that each component of intellectual capital (Fig. 6) can be found in the concept of corporate social responsibility through the effects they induce.

Quality of employees has become lately an important factor for the company in obtaining a competitive advantage, given that the emphasis on product, production technology and access to different markets is no longer enough for a company's success (Pfeffer 1994). Characteristics of employees' quality, including intelligence, motivation, experience, vision, creativity, commitment, capacity of analysis and synthesis and IT learning skills generate implications on the social responsibility activities of companies, in particular by increasing the company's capacity to engage in social and environmental activities, vocational training and creative activities or in volunteering for social and environmental causes. In general, a company with a high level of social responsibility activities tends to be more attractive to employees, leading to a low rate of new employees, thus reducing the costs of recruiting and training new employees.

Another important component of human capital is employee satisfaction, which relates to:

- Employees' emotional attachment (emotional relationship between employees and organization);
- The responsibility of employees (employees who feel more responsible are valued);
- Reward (the belief that if they work "very hard", they will be awarded);
- Appreciation (the belief that if they work "hard", they will be appreciated);
- Hoping to achieve personal results (hope that if they work "hard", they will achieve high performances).

All these elements lead to increasing the motivation of employees to engage in social responsibility activities, strengthening employees' commitment and loyalty to the company and enhancing the relations between the company and employees.

Employees' engagement mirrored by the people's confidence in their employers as well as their willingness for a career (employees seeking career focus on long-term benefits and a strong relationship with the organization) leads to an improvement of company's reputation and growth of the company's attractiveness for the workforce.

Organizational capital, the second component of intellectual capital, has significant influence over the activities of corporate social responsibility. Organizational culture, strategic and management processes, corporate governance and R & D within the company is reflected in corporate social responsibility by improving organizational commitment, rethinking competitive strategies that become more oriented on stakeholders, strengthening market position, managing more efficiently the relations with stakeholders, improving internal communication channels. Implementation of a corporate governance code of conduct at company level will have as impact the growth of environmental, health and safety of employees' quality, improvement of internal control system and guarantee of transparency in decision making. A high level of research will stimulate in the companies an increase in the number of patents, copyrights, trademarks, instruments that allow the company to create value and develop environmental investments.

Relational capital, the third important element of intellectual capital has significant effects on corporate social responsibility activities through its components. The company's brand may lead to the improvement of company's economic, financial, and social image and the increase of investors' interest. Constant relationship with customers and suppliers will determine customers' loyalty and attract new customers, strengthening the cooperative relations, improving suppliers' performance and their social and ethical profile. Financial relations will enhance the attractiveness of company for investors and financial analysts.

Companies that have the ability to develop a strategy to meet the expectations of human resources, based on the principles of corporate social responsibility, will stand out from other companies and record high levels of profitability. A company with corporate social responsibility increases its intangible assets and intellectual capital, attracting new resources and capacities that will become a source of competitive advantage for the company.

Consequently, companies depend largely on their ability to attract, manage and develop intellectual capital, which is the starting point in integrating social and environmental aspects in the general management of companies.

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Corporate Social Responsibility as a Voluntary Initiative But a Mandatory Non-financial Reporting Link Between the Social and Financial Performance of Romanian Companies

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Abstract This chapter covers the issue of social responsibility in a double sense: a pragmatic research on how Romanian companies publish information on social responsibility and an empiric research on the connection between the social (CSR) and financial performance of companies (CFP). The conclusion drawn from the study of the official websites of 665 companies shows quite a low interest in CSR reporting. The link between CSR and CFP was only analysed for companies identified as publishing non-financial information. A linear regression model with a numeric endogenous variable (the turnover index, IT) and a dummy exogenous variable (CSR, with value 1 - for involvement in CSR projects; 0 - for non-involvement in CSR projects). The results of tests show a very weak connection between IT and CSR, with a slight trend to disfavour companies showing CSR-related concerns, compared to those who do not have such a focus.

1 Introduction

In the last decades, more and more focus has been given to enhancing the companies' involvement in actions for protecting the environment, labour safety, the observance of human rights and the support of local communities. The integration of social responsibility actions in the current business strategy is a part of the sustainable development of companies. The current trend is important for both scholars and company managers. The involvement in corporate social responsibility actions (the widest term for the concept), but especially the publication of information on such actions are classified as requirements for enhancing the economic competitiveness and, implicitly, the financial performance of companies.

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In simple terms, corporate social responsibility (CSR) refers to a presumptive duty that companies (as social actors) would have towards all parties involved in the development of activities implied by their business (Popescu et al. 2015, p. 252). CSR, however, is a complex concept including a large number of elements (Ivanovic-Djukic and Lepojevic 2015, p. 552). This is defined, approached and implemented differently by various authors or by various companies. If we were to find a common denominator of most of these approaches, it would range from the "moral obligation" to the "voluntary initiative" of a company of integrating social, humanitarian and ecological aspects. Some opinions also state that companies derive financial advantages from this voluntary social activity. Do well by doing good is the conclusion of many studies proving that the involvement in CSR actions results in enhancing corporate financial performance (CFP) (Groening et al. 2015; Jayachandran et al. 2013; Chin et al. 2013; Barnett and Salomon 2012). A compulsory requirements for validating this hypothesis is the wide mediatization of CSR actions implemented by a company and, of course, of the results of such actions. This is recognized by both companies and consumers. According to a world-level study performed by the Reputation Institut, consumers care about corporate social responsibility and demand more information about sustainability: 55% of the study subjects declared that they would pay extra for products and services from companies committed to positive social and environmental impact (CSR RepTrak® 100, 2016, p. 43). The study advises companies to ensure transparency and only report the truth regarding the CSR-related efforts.

According to other studies, corporate social responsibility produces economic, social and environmental values which lead to the avoidance or minimization of the damages in economic, social or natural capital (Burlea Şchiopoiu et al. 2009).

The advice to report non-financial CSR-related information becomes a legal duty for companies operating in the European Union. The Directive 95/2014/EU provides for the obligation of certain companies and large groups to submit non-financial information and diversity-related information as of the financial exercise for 2017. The new situation will imply considerable efforts for both economists close to companies (accountants, managers, analysts, auditors) and for researchers in the academic environment.

The scientific goals of the hereby work regard the identification of the involvement in CSR actions and the relevant publication thereof by Romanian companies in the financial exercises (2014–2015) preceding the coming into force of new legal provisions. It also deals with the connection between the implementation of CSR projects and corporate financial performance. The assumption of such goals aims at reducing the gap between CSR theory and practice in emerging economies. To this purpose, the paper includes four distinct sections, as follows. The first section deals with corporate social responsibility and its evolution until becoming the subject of official reports, binding for certain companies. The second section includes a quantitative research whose phases consist of: i) identifying companies envisaged by new legal provisions and the establishment of the statistical population; ii) investigating the official websites of these companies with a view to clearly delimiting those focusing on CSR by publishing non-financial information, from those that are not concerned with the topic. The obtained results will be presented and the aspects resulting from the performed research will be debated thereafter. The research continues, in Sect. 3, with an econometric analysis. We shall try to identify how CSR influences the corporate financial performance of Romanian companies. Starting from the scientific assumption that a proper CSR strategy results in a good reputation of the firm among consumers and, therefore, in sales growth, we shall test the relation between FP (as an endogenous variable, expressed through the turnover index) and CSR (a dummy exogenous variable) through a linear regression equation. The obtained results will be analysed and interpreted, and a range of conclusions will be provided in the final section of the work.

2 CSR: Voluntary Action and Compulsory Reporting

Corporate social responsibility (CSR) is a concept used in economic theory and practice since the 1960s. The passage of time has enhanced its importance, qualifying it as a business strategy and, soon, as the subject of compulsory official reports for certain companies.

Scientifically, CSR seem to be rooted in the bold visions of researchers (Boulding 1956; Bowen 1953) who changed the image of companies from "closed systems" to complex organisations, closely interconnected with their environment. Companies are responsible for the production of social goods, and for the production of goods and services for sale, as they have the civic obligation to give something back to the communities they belong to. The first wide image of CSR dates back to Carroll (1979), who identified four fields that a company should take into account: economic, legal, ethical, discretionary. The Carroll's model (1979), based on a pyramid approach of the four fields, is the first full set of actions in social responsibility that managers should take into account. It was subsequently revised and adapted by many other authors (Aupperle 1984; Wartick and Cochran 1985; Wood 1991, 2010).

In the following, CSR became more and more present in research works, as well as in the papers of various international institutions and organizations. Turban and Greening (1996, p. 658) saw CSR activities as a "construct that emphasizes a company's responsibilities to multiple stakeholders, such as employees and the community at large, in addition to its traditional responsibilities to economic shareholders". Maignan and Ferrell (2004) went further and placed CSR among the top management attributions of a company, indicating the goal to create a positive relation between the company and its stakeholders. Where the company supported the local community, this positive relation would be maintained with beneficial effects for both parties. Socially responsible companies may achieve higher profitability through sales to "morally conscious customers" (Byus et al. 2010, p. 48).

CSR became a more and more prevalent and visible concept within companies, as a mechanism to energize and motivate stakeholders, as well as manage perceptions and expectations regarding the role and utility of businesses in local societies and communities (Wang et al. 2016, p. 534). As a result of changes in the business environment, all companies are now recommended to play a social role and have social responsibilities while still pursuing a profit (Wankeun Oh and Seungho Park 2015, p. 85). In other words, a successful today's company achieves not only financial, but also social performance. The promotion of equal opportunities, non-discrimination and respect for human rights may result in an enhanced productivity of the company's employees. At the same time, actions for involving and supporting the local community, for reducing pollution, ensuring customers' safety and security may result in the development of a strong company image among consumers and, implicitly, in their higher loyalty. The CSR effect is the improved brand image the company will have in the society and the corresponding growth in sales" (Adeneye and Ahmed 2015, p. 152).

In order to ensure the achievement of economic benefits from the company's CSR actions, such actions must be communicated to the consumer audience. As Holder-Webb et al. (2009) emphasized, "it is not enough for corporations to simply engage in CSR activities but it is also important and desirable to make information about these activities available to stakeholders". The publication of CSR-related information is seen as an indicator of the superiority of the concerned companies, compared to those who do not publish such information (Mahoney 2012; Thorne et al. 2014). Corporate social responsibility is a profitable management strategy provided that it generates, in the long run, the reliability and trustworthiness required for a company in the relations with those it depends from, shareholders, business partners, customers, community and society. Transparency and reliability are achieved through an efficient communication process (Popescu et al. 2015, p. 254).

CSR can be seen as the "moral obligation" or "voluntary initiative" of a company to integrate social, humanitarian and environmental aspects within its activity; however, reporting the results of such involvement is compulsory for enhancing a company's competitiveness and sustainable development.

The structure of annual financial statements only allows the publication of information on corporate social responsibility to a very low extent; this is why many companies in the world draw up distinct CSR reports. KPMG Survey of Corporate Responsibility Reporting (2015) shows that 73% of the N100 companies published CSR information in 2015, compared to 71% in 2013 and 64% in 2011. According to the same source, the main cause for the enhanced reporting of CSR is legal: there is a trend of development of such guidelines that impose companies to publish non-financial information (KPMG 2015, p. 30).

The same direction is followed by EU member states, who were given the deadline of December 6, 2016 for transposing the provisions of Directive 95/2014/EU of the European Parliament and of the Council amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups. According to the provisions of the Directive, starting with the 2017 financial exercise, the obligation to submit non-financial and diversity information by certain large undertakings and groups in EU member states has become binding. Thus, the option to publish CSR information, so far used by certain companies in order to achieve a competitive advantage, becomes standard business practice.

Since Romanian companies of a public interest are expected to have the obligation to publish non-financial information in the foreseeable future, the paper studies the importance that such companies award to corporate social responsibility: involvement and reporting.

In Romanian law, the Order of the Ministry of Public Finance OMFP[1] no. 1938/2016 partially transposes the provisions of Directive 2014/95/EU. According to this order, *entities of a public interest that exceed the criterion of an average number of 500 employees during the financial exercise, as of the balance sheet date, shall include a non-financial statement in their administrators' report, that contains, provided that it is required to understand the development, performance and position of the entity and the impact of its activity, information regarding at least the environmental, social and staff-related issues, respect for human rights, fight against corruption and bribery.*

3 Quantitative Research

3.1 The Statistical Population

The research is focused on the population of Romanian companies that, according to the provisions of the Order of the Ministry of Public Finance no. 1938/2016, have the obligation to publish non-financial and diversity information, starting with the activity developed in the 2017 financial exercise.

A private database was used in order to accurately identify such companies. By accessing www.listafirme.ro, we were able to select, according to the number of employees, companies which reported an average number of employees higher than 500 for the 2015 financial exercise. 665 companies were provided, where the following categories of information were acquired: company name, address of the registered head office, single company registration code, NACE code, official website.

The classification of the 665 companies obtained according to www.listafirme.ro was checked, on a sample basis, against information published on the Ministry of Public Finance website (www.mfinante.gov.ro). The data was fully validated, and the 665 firms in the statistical population were confirmed. A quantitative research was performed for these companies, with the scientific goal of identifying the

[1]Order of the Ministry of Public Finance no. 1938 of August 17, 2016, published in the Official Gazette of Romania no. 680 of September 2, 2016, available on http://legislatie.just.ro/Public/DetaliiDocument/181377

importance awarded to the publication of non-financial information 1 year before the year when such reporting becomes binding.

3.2 Who Publishes CSR Information and Who Does Not?

This phase consisted in consulting the official website of each of the 665 companies and classifying them into CSR or non-CSR companies, according to the publication/non-publication of information on social responsibility.

We identified 177 companies that published information regarding at least environment protection, social protection and labour quality assurance, respect for human rights and support for local communities. For most companies, non-financial information is orderly presented in site menus dedicated to CSR, but some companies also published individual articles on the topic. They were classified under comp_CSR and represent 27% of the total population of analysed companies (Annex). 395 companies failed to publish any information regarding their own social responsibility concerns (59% of the total population). They were classified under comp_non_CSR (Annex). Some websites were not accessible when the research was performed (website under construction, technical error, etc.). This situation was seen for 93 companies in the researched statistical population (14%), which were classified under comp_not investgtd (Annex).

The results of quantitative research are presented both at a central level for the main fields of activity according to NACE 2016 Rev. 2 and in detail, in second level analytical classes up to NACE code divisions. Results are presented both as absolute numbers and as a percentage (Annex).

The detailed CSR/non-CSR behaviour of companies was described considering the population structure by fields of activity (Fig. 1).

The structural analysis of the statistical population shows that *processing industry* is the sector with the highest number of companies of a public interest that must publish non-financial information, i.e. 292 companies (44% of the total analysed population). It is followed, at a quite large distance, by *administrative services and supporting services* (64 companies—10%), *wholesale and retail; repair of motor vehicles and motorcycles* (60 companies—9%), *transport and storage* (49 companies—7%) and *water distribution; sanitation, waste management, decontamination* and *information and communication* (35 and 32 companies respectively—5%). These fields of activity total 531 companies, respectively 80% of the statistical population and shall be hereinafter referred to as significant fields. Other fields of activity hold a share of less than 5% of the total population of analysed companies (chart 1).

The interest in publishing CSR information for companies within significant fields followed the general trend; the number of companies that published non-financial information was much lower than the number of companies who did not publish such information.

Corroborating the information of Annex with the one in chart no. 2, we can draw detailed conclusions at the level of each of the six significant activity sectors (Fig. 2).

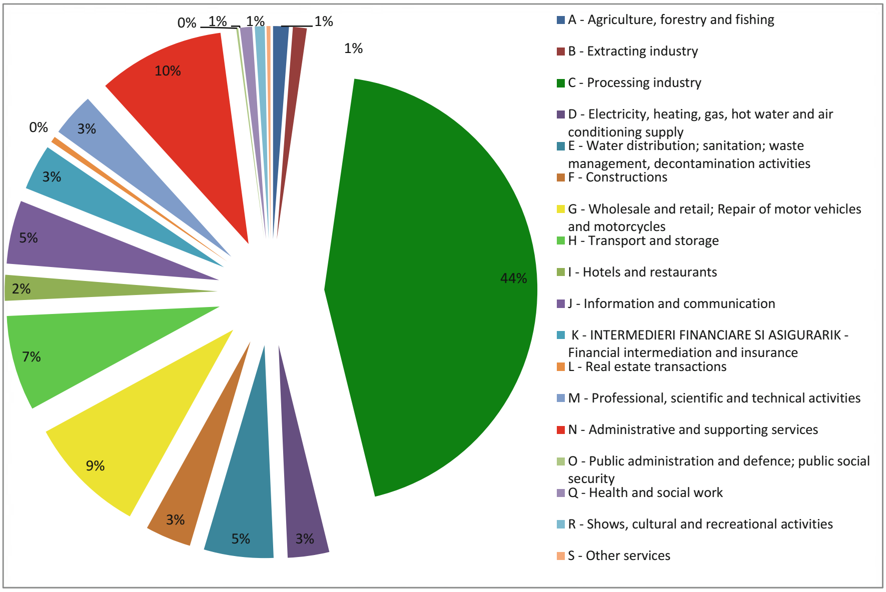

Fig. 1 The structure of the statistical population according to the field of activity

Within *processing industry*, of the 292 companies, only 84 (29%) published non-financial information, while 167 companies (57%) did not communicate their social responsibility concerns to the public. A number of 41 companies (14%) could not be investigated.

The industry of *administrative and supporting services* includes 64 companies. Of these, 13 (20%) published information related to non-financial information, 35 companies (55% of the industry total) did not publish, and 16 companies (25%) could not be analysed.

Within the industry of *wholesale and retail; repair of motor vehicles and motorcycles,* out of the 60 analysed companies only 16 (27%) failed to publish their social responsibility concerns, while more than half of the companies (35, i.e. 58% of the industry total) chose not to communicate such information through their official websites. Nine companies (15%) had their websites unavailable during the performance of the study.

The *transport and storage* industry had the lowest percentage of companies with a CSR behaviour, i.e. 19% (9 companies) of the total 48 companies in the sector, while non_CSR companies represented 77% of the sector's total. Two companies were not analysed (4%).

Out of the sector of *water distribution; sanitation; waste management, decontamination activities*, all the 35 initial companies could be analysed. Out of these, only 10 companies (29%) published non-financial information, and the remaining 25 (71%) failed to do this.

For the *information and communication*, the number of companies with a CSR behaviour represented 22% of all the 32 companies in the sector, while non_CSR

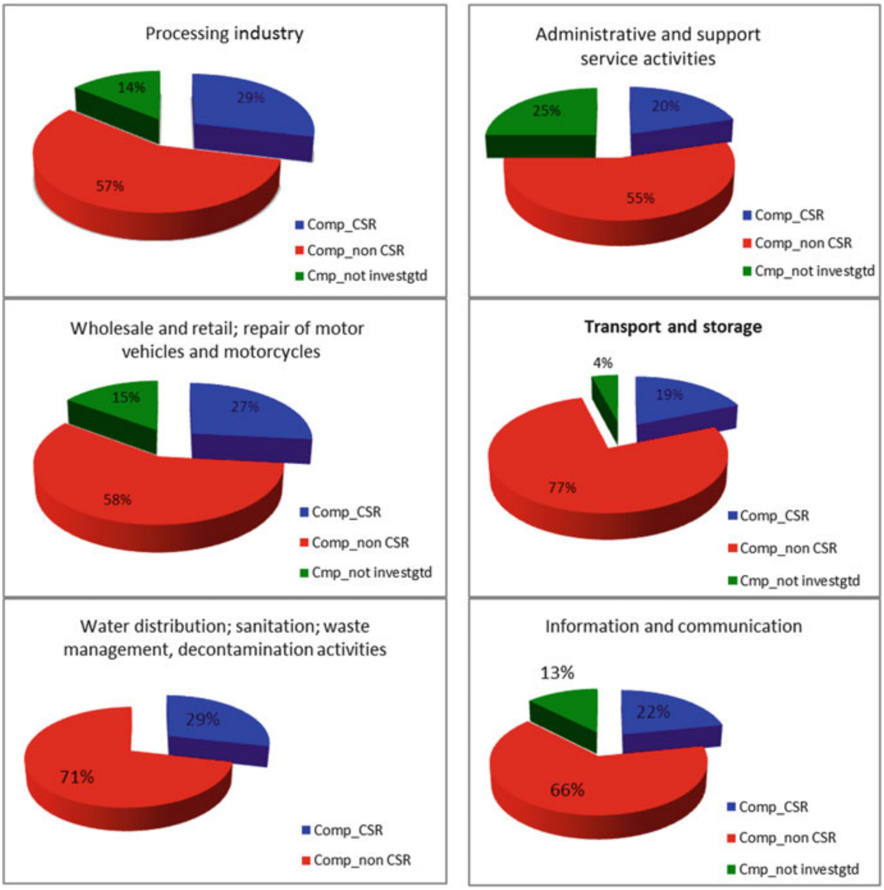

Fig. 2 The structure of companies in significant fields in terms of CSR interest

companies represented 66% of the sector's total. Four companies were not analysed (13%).

In sectors with a low share in the statistical population, non_CSR companies prevail as well. Industries were identified where none of the component companies could publish non-financial information.

4 Quality-Based Research: The Connection Between CSR and Financial Performance

4.1 Sample

The subjects of quality-based analysis were extracted starting from the 177 companies_CSR obtained in the previous phase. Analysis was deepened for these companies and the CSR aspects dealt with by each of them (environment, work and security practices, human rights, society, product responsibility) were clearly identified; their involvement in concrete social responsibility actions was especially emphasized. Thus, the consultation of official websites helped delimit companies actually involved in CSR projects from companies that only dealt with the issue at a theoretical level.

Of the 177 analysed companies, the following were discarded: companies that published information on projects implemented earlier than 2013, companies that only published information on projects implemented outside Romania, as well as commercial banks, for the lack of financial information. The remaining 155 companies were subject to an analysis of the connection between CSR and their financial performance. Financial information was also collected on the level of turnover in 2014 and 2015, and the turnover index was calculated ($ICA = CA_{2015}/CA_{2014}$).

4.2 Assumptions and Methodology

A still controversial issue in scientific literature is the connection between CSR and a company's financial performance. Can the integration of CSR into a firm's activities improve its performance (Madorran and Garcia 2016, p. 21)? The answer is neither simple, nor unanimous. Studies already performed result in various outcomes: roughly 50% find a positive relationship between CSR and financial performance, 25% find no relationship, 20% find mixed results, and 5% find a negative relationship (Kang et al. 2016, p. 61). The complexity of such studies varies according to the number of analysed elements (the number of indicators used to characterize CSR and CFP and the time frame they were calculated for), as well as the employed analysis techniques. Complex input seems to result in complex outcomes, outputs.

This study aims at simplifying the data and analysing the connection between CSR, seen as a dummy variable (1—involvement in CSR projects; 0—non-involvement in CSR projects) and CFP, characterized by a single indicator—turnover variation. The choice of turnover as a financial performance indicator is based on the scholars' unanimous opinion that a proper CSR strategy determines an enhanced corporate performance, with a primary effect on sales (Adeneye and Ahmed 2015; Byus et al. 2010; Branco and Rodrigues 2007). Based on this unitary conclusion, we draw up the following range of scientific assumptions:

HA_0: The CSR initiatives undertaken by a company and the evolution of its turnover are significantly related at a statistical level.

HA_1: The CSR initiatives undertaken by a company and the evolution of its turnover are not significantly related at a statistical level.

If the null assumption (HA_0) is accepted, the following secondary range of assumptions shall be tested:

HB_0: Companies undertaking CSR initiatives, through the actual involvement in projects, have a turnover evolution higher than the one seen in companies that are not involved in such projects.

HB_1: Companies not undertaking CSR initiatives and with no involvement in projects have a turnover evolution lower than the one seen in companies that are involved in such projects.

A linear regression model with a binary exogenous variable was used for testing such assumptions (adapted after Fox 2010):

$$ICA = \beta_0 + \beta_1 \cdot CSR + \varepsilon$$

where:

ICA = the turnover index, an endogenous, numerical variable;

CSR = exogenous variable, dummy type {	1, for companies actually involved in CSR projects, according to the published information. 0, for companies not involved in CSR projects. They only published theoretical information.

β_0 = showing the average level of the endogenous variable (ICA) for the 0 category of the exogenous variable (CSR = 0);

β_1 = showing the difference between the average levels of the dummy variable for the two categories (difference between the average evolution of turnover in companies involved in CSR projects and the average evolution of turnover for companies that are not involved. If companies with a CSR behaviour are disadvantaged compared to those without such a behaviour, the coefficient will be negative);

$\beta_0 + \beta_1$ = showing the average level of the endogenous variable (ICA) for the 1 category of the exogenous variable (CSR = 0);

If the endogenous variable (turnover index) follows a normal distribution, of standard deviation (σ_i) and an average equal to:

M (ICA/CSR (0,1))	{ m_0 = the average evolution of turnover for companies not involved in CSR projects; m_1 = the average evolution of turnover for companies involved in CSR projects,

then the regression model can be written as follows, depending on the values of the binary exogenous variable:

a) for companies not involved in CSR projects:

$$ICA = \beta_0 + (\beta_1 \cdot 0) + \varepsilon = \beta_0 + \varepsilon$$

b) for companies involved in CSR projects:

$$ICA = \beta_0 + (\beta_1 \cdot 1) + \varepsilon = (\beta_0 + \beta_1) + \varepsilon$$

The model estimators are obtained by applying MCMMP, provided that classical assumptions for a simple linear regression model are met.

5 Results and Discussions

The descriptive statistics presented in Table 1 indicates a standard deviation of 0.191 (Fig. 3) for the endogenous variable (ICA), as well as the ranges 0.59–1.90 for ICA values in companies not involved in CSR projects and 0.69–1.94 for ICA values in companies involved in CSR projects. The average value of ICA in companies without CSR projects is 1.13 while the average value of ICA in companies with CSR projects is only 1.10.

The values calculated for the 155 companies for ICA as an endogenous variable, as well as the two binary values of CSR, as an exogenous variable, were input to the SPSS econometric software, selecting the specific options of the simple linear regression model. The obtained results are presented in the following (Table 2):

The first software output indicates the variables of the model: CSR as an independent variable, introduced through the Enter method, and ICA as a dependent variable.

Table 3 presents the values of the multiple correlation coefficient in the first exponent (0.075) and second exponent (0.006). A very weak dependence is indicated between the variation of the endogenous variable compared to the variation of the exogenous variable. In other words, the evolution of the turnover index only depends on CSR variation to an extent of 0.6%. The conclusion is also supported by the adjusted value of the multiple correlation coefficient (0.003), which suggests

Table 1 Statistics

	ICA	
N		
Valid	155	
Missing	0	
Std. deviation	0.191	
	ICA/CSR(0)	**ICA/CSR(1)**
N		
Valid	88	67
Missing	0	0
Minimum	0.596521	0.697592
Maximum	1.906081	1.942003
Mean	1.136628	1.107105

Source: Authors' processing

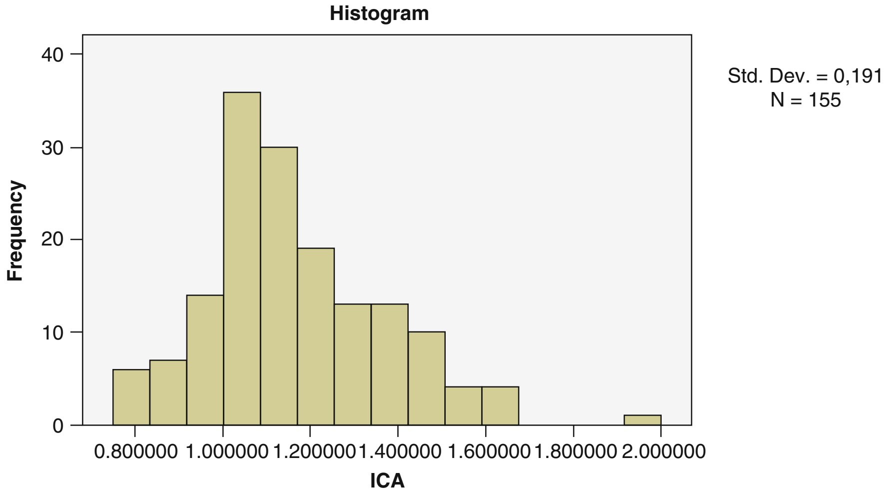

Fig. 3 Distribution of the turnover index

Table 2 Variables entered/removed[a]

Model	Variables entered	Variables removed	Method
1	CSR[b]	.	Enter

[a]Dependent variable: ICA
[b]All requested variables entered

that other major factors are involved in explaining the variation of the turnover ratio.

The same conclusion is suggested by the statistics F in Table 4, whose associated *Sig*. value (p value $= 0.047$) is very close to the minimum admitted significance threshold ($p < 0.05$).

The relation between the turnover index and corporate social responsibility has a low significance according to the result p value $= 0.032$ generated for the level of the exogenous variable coefficient (Table 5).

The general estimated equation of the regression model is written as:

$$ICA = 1.142 - 0.035 \cdot CSR$$

Significance of the equation parameters:

$\beta_0 = 1.142$ indicates an average percentage of 114% increase in the turnover for companies not implementing CSR projects;

$\beta_0 + \beta_1 = 1.142 - 0.035 = 1.107$ indicates an average growth of 110% in the turnover for companies implementing CSR projects;

$\beta_1 = -0.035$ shows the difference between turnover evolution for companies not implementing CSR projects and turnover evolution for companies implementing such projects. This negative difference shows a disadvantage of companies that are socially responsible, compared to those not undertaking such responsibility.

Table 3 Model summary

Model	R	R Square	Adjusted R Square	Std. error of the estimate
1	.075[a]	.006	.003	.232522047

[a]Predictors: (Constant), CSR

Table 4 ANOVA[a]

Model		Sum of squares	df	Mean square	F	Sig.
1	Regression	.047	1	.047	.872	.047[b]
	Residual	8.272	153	.054		
	Total	8.319	154			

[a]Dependent variable: ICA
[b]Predictors: (Constant), CSR

The linear regression model can be written as follows, depending on the two binary values of the exogenous variable, based on the level of generated coefficients:

a) for companies not involved in CSR projects:

$$ICA = 1.142 + (-0.035 \cdot 0) + \varepsilon = 1.142$$

b) for companies not involved in CSR projects:

$$ICA = 1.142 + (-0.035 \cdot 1) + \varepsilon = 1.107$$

Corresponding to the previously performed tests, turnover evolution depends on the variation of the exogenous variable (CSR) to a very small extent, and other influence factors have to be identified and analysed.

6 Conclusions

The paper pursued two aspects related to corporate social responsibility: on the one hand, identifying the importance awarded to CSR by Romanian companies, as they undertake and integrate CSR actions in their activity and provide such information to the wide public; on the other hand, investigating the relation between CSR actions and corporate financial performance with a view to determining how a better social performance results in a better financial performance.

A quantitative research was performed for a statistical population of 665 Romanian companies that are to be subject to new legal provisions on non-financial reporting, with a view to achieving the first goal. The official websites of these companies were investigated and information was collected on the publication/failure to publish CSR-related information. We have discovered a quite low interest

Table 5 Coefficients[a]

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.	95.0% confidence interval for B	
		B	Std. error	Beta			Lower bound	Upper bound
1	(Constant)	1.142	.025		46.085	.000	1.093	1.191
	CSR	−.035	.038	−.075	−.934	.032	−.110	.039

[a]Dependent variable: ICA

of Romanian companies in terms of communication of their focus on environment, social protection and community. Contrarily to its world level reputation, supported by many studies and articles, CSR is still in an initial phase in Romanian economy.

The research was completed by an econometric analysis, aiming at identifying how CSR influences the corporate financial performance (CFP) of Romanian companies. This analysis was performed for 155 companies identified in the previous phase as publishing CSR-related information. They were assigned the binary values of 1 and 0 depending on the practical focus on CSR actions, thus obtaining a dummy exogenous variable of the model (CSR): 1—for publication of information on actual involvement in CSR projects and 0—for publication of exclusively theoretical information. The endogenous variable was the turnover index (ICA) calculated for 2014–2015. The results of tests show a very weak connection between ICA and CSR, while the values of variable coefficients suggest a slight trend to defavour companies showing CSR-related concerns, compared to those who do not have such a focus. The low level of R square (.006) places the results of our study among those suggesting the absence of a statistically meaningful relation between corporate social responsibility and financial performance (Madorran and Garcia 2016; Lech 2013; Garcia-Castro et al. 2010). The financial performance of a company is certainly influenced by external factors to its operating activity, CSR factors included. However, this implies much more detailed econometric processing, also introducing other indicators in the analysis.

Annex: Results of Quantitative Research

Field of activity	Total comp.	Comp_CSR		Comp_non CSR		Comp_ not investgtd	
		No.	%	No.	%	No.	%
A—Agriculture, forestry and fishing	**8**	**1**	**13**	**5**	**63**	**2**	**25**
01 Agriculture, hunting and attached services	7	1	14	4	57	2	29
02 Forestry and forest management	1		0	1	100		0
B—Extracting industry	**7**	**2**	**29**	**4**	**57**	**1**	**14**
05 Extraction of high and low quality coal	1	0	0	1	100	0	0
06 Extraction of raw oil and natural gas	2	2	100	0	0	0	0
07 Extraction of metals	1	0	0	1	100	0	0
08 Other extracting activities	1	0	0	1	100	0	0
09 Service activities incidental to extraction	2	0	0	1	50	1	50
C—Processing industry	**292**	**84**	**29**	**167**	**57**	**41**	**14**
10 Food industry	29	9	31	18	62	2	7
11 Manufacture of beverages	10	4	40	6	60	0	0
12 Manufacture of tobacco products	2	2	100	0	0	0	0
13 Manufacture of textiles	9	1	11	7	78	1	11
14 Manufacture of clothes	38	3	8	23	61	12	32
15 Tanning and dressing of leather; manufacture of luggage, handbags, saddlery and harness n.e.c.	11	1	9	4	36	6	55
16 Wood processing, manufacture of wood products except furniture n.e.c.	6	4	67	2	33	0	0
17 Manufacture of paper and paper products	2	1	50	0	0	1	50
19 Manufacture of coke and refined petroleum products	1	0	0	1	100	0	0
20 Manufacture of chemicals and chemical products	7	1	14	5	71	1	14
21 Manufacture of basic pharmaceutical products and pharmaceutical preparations	3	2	67	1	33	0	0
22 Manufacture of plastic items	15	3	20	11	73	1	7
23 Manufacture of other non-metallic mineral products	7	1	14	6	86	0	0
24 Manufacture of basic metals	12	7	58	5	42	0	0
25 Manufacture of fabricated metal products, except machinery and equipment	10	2	20	6	60	2	20

(continued)

Field of activity	Total comp.	Comp_CSR		Comp_non CSR		Comp_ not investgtd	
		No.	%	No.	%	No.	%
26 Manufacture of computers, electronic and optical products	13	4	31	7	54	2	15
27 Manufacture of electrical equipment	16	6	38	9	56	1	6
28 Manufacture of machinery, tools and equipment n.e.c.	18	5	28	12	67	1	6
29 Manufacture of motor vehicles, trailers and semi-trailers	47	19	40	19	40	9	19
30 Manufacture of other transport equipment	13	4	31	8	62	1	8
31 Manufacture of furniture	18	2	11	16	89	0	0
32 Other industrial activities n.e.c.	1	0	0	0	0	1	100
33 Repair, maintenance and installation of machinery and equipment	4	3	75	1	25	0	0
D—Electricity, heating, gas, hot water and air conditioning supply	**21**	**10**	**48**	**8**	**38**	**3**	**14**
35 Production and supply of electricity and heating, gas, hot water and air conditioning	21	10	48	8	38	3	14
E—Water distribution; sanitation; waste management, decontamination activities	**35**	**10**	**29**	**25**	**71**	**0**	**0**
36 Water collection, treatment and supply	26	4	15	22	85	0	0
38 Waste collection, treatment and removal; recovery of recyclable materials	9	6	67	3	33	0	0
F—Constructions	**23**	**6**	**26**	**13**	**57**	**4**	**17**
41 Constructions of buildings	6	1	17	4	67	1	17
42 Electrical engineering	12	3	25	7	58	2	17
43 Special construction works	5	2	40	2	40	1	20
G—Wholesale and retail; Repair of motor vehicles and motorcycles	**60**	**16**	**27**	**35**	**58**	**9**	**15**
45 Wholesale and retail; maintenance and repair of motor vehicles and motorcycles	5	0	0	4	80	1	20
46 Wholesale, except for sale of motor vehicles and motorcycles	22	5	23	13	59	4	18
47 Retail, except for sale of motor vehicles and motorcycles	33	11	33	18	55	4	12
H—Transport and storage	**48**	**9**	**19**	**37**	**77**	**2**	**4**
49 Road transport and pipe-based transport	28	5	18	21	75	2	7
50 Water-borne transport	1	0	0	1	100	0	0

(continued)

Field of activity	Total comp.	Comp_CSR		Comp_non CSR		Comp_ not investgtd	
		No.	%	No.	%	No.	%
51 Air-borne transport	2	0	0	2	100	0	0
52 Storage and support activities for transportation	11	4	36	7	64	0	0
53 Mail and courier activities	6	0	0	6	100	0	0
I—Hotels and restaurants	**13**	**3**	**23**	**9**	**69**	**1**	**8**
55 Hotels and other accommodation facilities	7	0	0	7	100	0	0
56 Restaurants and other catering services	6	3	50	2	33	1	17
J—Information and communication	**32**	**7**	**22**	**21**	**66**	**4**	**13**
58 Editing activities	2	0	0	1	50	1	50
60 Television programming and broadcasting activities	2	1	50	1	50	0	0
61 Telecommunications	12	3	25	7	58	2	17
62 IT service activities	13	3	23	10	77	0	0
63 Computer service activities	3	0	0	2	67	1	33
K—Financial intermediation and insurance	**23**	**8**	**35**	**12**	**52**	**3**	**13**
64 Financial intermediation, except insurance and pension funding	18	6	33	10	56	2	11
65 Insurance, re-insurance and pension funding (except public insurance funding)	5	2	40	2	40	1	20
L—Real estate transactions	**3**	**1**	**33**	**2**	**67**	**0**	**0**
68 Real estate transactions	3	1	33	2	67	0	0
M—Professional, scientific and technical activities	**22**	**7**	**32**	**10**	**45**	**5**	**23**
69 Legal and accounting activities	1	0	0	0	0	1	100
70 Activities of (central) departments, central administrative offices; management and management consulting activities	5	1	20	3	60	1	20
71 Architecture and engineering activities; testing	7	4	57	3	43	0	0
72 Research and development	2	1	50	1	50	0	0
73 Advertising and market study activities	5	0	0	2	40	3	60
74 Other professional, scientific and technical activities	1	0	0	1	100	0	0
75 Veterinary activities	1	1	100	0	0	0	0
N—Administrative and supporting services	**64**	**13**	**20**	**35**	**55**	**16**	**25**
78 Workforce service activities	17	3	18	10	59	4	24

(continued)

Field of activity	Total comp.	Comp_CSR		Comp_non CSR		Comp_ not investgtd	
		No.	%	No.	%	No.	%
79 Activities of travel agents and tour operators; other booking and tourist support services	1	0	0	1	100	0	0
80 Investigation and project-related activities	28	4	14	16	57	8	29
81 Landscaping and building service activities	5	1	20	3	60	1	20
82 Secretarial activities, support services and other services mainly provided to companies	13	5	38	5	38	3	23
O—Public administration and defence; public social security	**1**	**0**	**0**	**1**	**100**	**0**	**0**
84 Public administration and defence; public social security	1	0	0	1	100	0	0
Q—Health and social work	**6**	**0**	**0**	**6**	**100**	**0**	**0**
86 Human health-related activities	6	0	0	6	100	0	0
R—Shows, cultural and recreational activities	**5**	**0**	**0**	**3**	**60**	**2**	**40**
92 Gambling and betting activities	5	0	0	3	60	2	40
S—Other services	**2**	**0**	**0**	**2**	**100**	**0**	**0**
95 Repairs of computers, personal items and household items	1	0	0	1	100	0	0
96 Other services activities	1	0	0	1	100	0	0
Total	665	177	–	395	–	93	–

Source: Authors' processing

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Risk Governance: Basic Rationale and Tentative Findings from the German Banking Sector

Volker Stein and Arnd Wiedemann

Abstract The fact that, over and over again, companies are surprised by unanticipated risks points to a serious deficit: Obviously, neither risk management nor corporate governance has been able to avert the incurred damage. Are these two highly specialized functions unable "to see the forest for the trees?" For the sake of overcoming the addressed limitations, the management theory-related search for a solution leads to the proposal of a bridging function: "risk governance". We will first introduce its basic rationale in the corporate context before presenting tentative empirical findings from a benchmark study in the German banking sector. Our paper contributes to the development of a generic approach towards the strategic control of risk from the perspective of top management.

1 Introduction and Research Motivation: A New Quality of Risks

In our times, digitized interconnection is the driving force behind the progressive evolution of the way we live, we work, we organize, we decide. The more interconnected companies, media, and society, the more interconnected the risks.

Especially corporate risks today are complex, and cross-linked with every corner of economy and society. They are self-reinforcing as they tend to aggregate with internal dynamics. They are driven by social media and become vibrant almost in real-time with no warning in advance. Therefore, they exhibit a certain "tsunami quality": he who does not act in time will be overrun by the consequences. All things considered, this newly emerging risk landscape bears the potential to threaten the survivability even of old, established, and successful companies (e.g. Robu et al. 2014). As the recent example of Volkswagen 2015/2016 shows: things could go very wrong very fast.

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However, corporate future is not an inexorable fate, it is created by people. Since there are many possible futures, top-tier management should aim towards shaping a sustainable future for the company.

Companies—at least the larger ones—possess a multitude of instruments dedicated to coping with risks. Why then do unforeseen risk escalations still happen, and why are they not avoided anticipatorily before endangering the company's future? The answer may be surprisingly simple: because the existing risk-related instruments are still insufficient or inappropriate. For that reason, our research aims at assessing this assumption by systematically searching for the deficits of existing concepts of corporate risk control before sketching out the risk governance framework. Tentative findings from the German banking sector will direct research to further advancements.

2 Deficits in Existing Concepts of Corporate Risk Control

Large companies and larger SMEs generally possess a risk management function that performs clearly defined tasks: avoiding avoidable risks and identifying, analyzing, taking, securing, and monitoring inherent risks (e.g. Hull 2015; Jorion 2007; Merna and Al-Thani 2008). "Relevant" risk (e.g. Robu et al. 2014), i.e. the aggregation of those risks that have a large impact on the company's value, are particularly subjected to standardization requirements of ISO (e.g. ISO 31000:2009), OECD (2014), and many industry associations. They are measured, evaluated, matched with the risk-bearing capacity of the company, and optimized with respect to the risk-return ratio. And indeed, risk management widens from purely mapping financial risks to covering general management risks and strives for meeting strategic requirements.

Nevertheless, the current status of corporate risk control draws fundamental criticism: In regard to the overall corporate level, risk management operates too mechanistically because it uses standardized risk models and standardized risk management processes to preselected standard risks. It is not surprising that risk management lags behind rapidly changing environmental conditions: interconnected risks in open enterprise systems and risk escalation dynamics are not sufficiently taken into account (e.g. Davis and Lukomnik 2012). Complex, ambiguous risks are managed as though they were simple (van Asselt and Renn 2011, p. 438) and clear. Risk management lacks a built-in recontextualization mechanism and is, therefore, unable to evaluate the appropriateness of its standard procedures and risk preferences from within. Particularly in the aftermath of the global financial crisis of 2008, insistent demands for an opening of risk management to governance have arisen (e.g. Aebi et al. 2012; Battaglia and Gallo 2015; Hutchinson et al. 2015; Mongiardino and Plath 2010), especially in terms of financial institutions. Consequently, its blind spots render risk management a risk in itself.

Another function dedicated to corporate risk control is corporate governance (e.g. Commission on Global Governance 1995; OECD 2004; Shleifer and Vishny 1997). Organizationally tied to board or management level, it is a regulatory framework that takes systemic risks of and in companies into account from a completely different direction: It aims at the application of minimum standards to be complied with at the level of top management. The objective of corporate governance is to ensure that top management and supervisory bodies do not generate conflicts of interest with the various stakeholders of the company and that they avoid risks arising from a lack of top management quality, missing compliance, a lack of transparency, and the neglect of sustainability.

Corporate governance, however, is also limited with regards to the management of corporate risks, because the application of many of the regulations are of voluntary nature ("soft" according to Ahrne and Brunsson 2004) and the rules often lack an explicit focus on the full breadth of the corporate risk landscape. Moreover, it is somewhat mechanistical, since its actions are oftentimes limited to ticking boxes related to formal legal requirements as in "yes, we communicated with XY" or "yes, we involved XY in time" in order to include this in corporate governance reports.

As of this point, operational risk management and strategic corporate governance can be identified as corporate functions that bear reference to corporate risk control, but are increasingly specialized to a degree that leaves them too engaged in their classic portfolio of tasks. This stunts their antennas for issues that seem peripheral to their function but are in fact necessary for grasping the complete picture. Over time, both functions have developed a silo mentality, being isolated from each other. As a result of their functional separation and specialization, sometimes the truly enterprise-threatening risks fall through the cracks; recent examples of 2015/2016 from Germany include Volkswagen's emissions rigging and obvious lack of understanding truthful environmental orientation, or Deutsche Bank's startling number of more than 7000 lawsuits worldwide and the company's obvious lack of truthful compliance. Corporate behavior that may still be legal in a closed system, can be far from legitimacy in an open system—this dynamically self-enforcing lack of legitimacy from outside the company (e.g. Powell 2007, stresses this new-institutionalist perspective) is precisely what creates threatening risk positions.

These deficits raise the question: are there ways out? A first solution is the development of enterprise risk management (ERM) systems (e.g. Gordon et al. 2009; Lundquist 2015; Power 2007): In response to the 2008 financial crisis, the call for an integrated, holistic risk management that specializes in the risks of corporate management came up. The stratagem of ERM is to add "governance" to the traditional risk management in the sense of better controlling the risk management function itself. This, however, does not seem sufficient since this improvement is only aimed at one partial area, risk management organization, but not at risk management functionality. In addition to that, Bromiley et al. (2015, p. 265) state that "academic research on enterprise risk management is still in its infancy, with articles largely in accounting and finance journals but rarely in management journals". Therefore, even a strategically-oriented augmentation such as ERM will not fundamentally change the basic orientation as a traditional risk management function.

The second solution to the problem seems to be the rise of risk culture. Although increasingly used as a buzzword in management, the intention of establishing risk culture is to set new corporate-wide normative standards that influence the attitudes and the behavior of enterprises in regard to risk management decisions, supplemented by a value-based risk communication and appropriate incentives (e.g. Tirole 2001). This suggestion, however, does not reach far enough, either, since experience with culture shows that—if not executed in daily practice or even prescribed as "cultural change" by the management—it disappears into the nirvana of vagueness.

The sustainable solution could be positioned between risk management and corporate governance: risk governance. The term originates from 2003 when the International Risk Governance Council (IRGC) started to support governments as well as NGOs in addressing global systemic macro risks in a broad political context which involved areas such as security, health, environment, technology, and economics (IRGC 2012; Renn 2005).

Risk governance has only recently been applied to business risks (Stein and Wiedemann 2016). In the course of this paper, we will introduce risk governance as the corporate function that is directed towards the overall regulation of risk management. As pointed out by Rothstein et al. (2006, p. 91), the need for this function has already been recognized: "Explanations of the growing importance of risk to regulation identify three processes; the need to respond to newly created and discovered risks; the growth of regulatory frameworks; and the use of the risk instrument as an organizing idea for decision-making in modernity." Developing this idea further, requires determining exactly what the differences between risk management and corporate governance are, how risk governance can answer the open questions, and where added value is created.

3 Risk Governance Framework: Philosophy, Tasks, and Effectiveness

The necessity of risk governance arises from the fact that corporate governance research and practice do not clearly translate their broad stakeholder perspective into corporate financial management, nor do risk management theory and practice clearly translate their financial approaches into the politics of strategic management, nor is there an elaborated intersection. As highly specialized expert functions, risk management and corporate governance have developed domain-specific competences, but have gradually separated from their adjacent fields, hampering cross-functional communication. Risk-related problems occurring at the functional intersection (e.g. Egoavil 2003) become peripheral, while each expert function addresses the

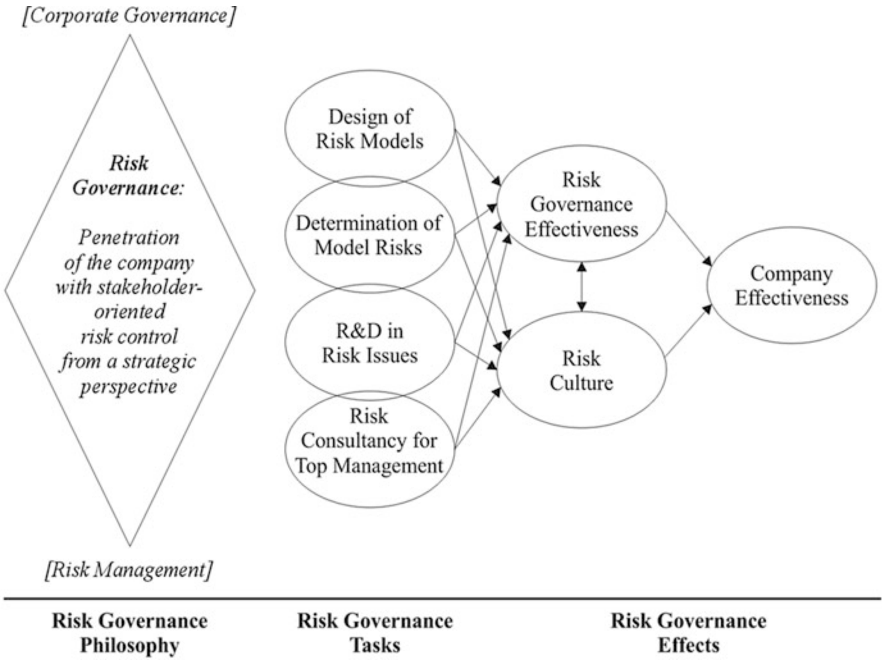

Fig. 1 Basic concept of risk governance

solution of challenges in the center of its own domain in depth. Problems arise at the overall corporate level: in order to cope with the complexity of today's organizations, an additional specialist is needed to communicate with both fields.

As the following outline will show, conceptually combining corporate governance with risk management goes beyond simply mixing the terms. Risk governance will enable organizations to control the risk-related complexity of open organizations under the contemporary conditions of multi-political dynamic environments. The conceptual understanding of risk governance according to Stein and Wiedemann (2016) is depicted in Fig. 1.

Risk governance is a philosophy with the following characteristics:

- Risk governance is the third track between risk-based approaches to governance and the operative governance of risks (Rothstein et al. 2013), translating corporate governance requirements to the management of risks with appropriate distance and independence from top management.
- Risk governance, seen as a corporate function, aims at a proactive risk control throughout the whole company, initiated from within the company and not imposed on it from outside. The intention is to incorporate its basic principle to all corporate decisions: the integration of stakeholder-oriented risk considerations.

- Risk governance is the organizational option for the decentralization of systemic risk control, reducing steering complexity for top management and the supervisory board. While overall governance issues and compliance are tasks of top management and supervisory board already covered by an advanced governance regime, the risk-related issues increasing in complexity are not yet sufficiently balanced. Top management and the supervisory board do not have the time and management resources to dive deeply into those issues, which leaves those tasks to be delegated to a risk governance staffed with specialists.
- Risk governance is a top-down catalyst for risk model issues, requiring a voice directed upwards and demanding implementation of decisions downwards. Risk governance needs the appropriate empowerment as well as an autonomous status to avoid becoming a toothless tiger.
- Risk governance is committed to the norms of "good corporate governance", not only internally, but also externally, sending clear ethical signals to all stakeholders concerning risk-related sustainability. "Good corporate governance" normatively refers to fundamental ethical principles based upon the understanding of a democratic, open, mutually committed society. In transferring that notion to risk governance, it is consequential to consider good risk governance the way the International Risk Governance Council does with respect to global political risks: "Risk Governance is the application of the principles of good governance to the identification, assessment, management, and communication of risk" (IRGC 2015). This means that good risk governance submits to claims such as prudence, participation (e.g. De Marchi 2003), partnership with substantial collegiality (e.g. Orton and Weick 1990), communication and inclusion (van Asselt and Renn 2011), transparency, and accountability—altogether contributing to the sustainability and viability of a company.

Based on this philosophy, four specific risk governance tasks can be specified (Stein and Wiedemann 2016, p. 824–828):

1. **Design of Risk Models.** The first task of risk governance is to design a range of alternative risk models that represent the overall business model in a suitable way. This means specifying different risk models that imply the ways in which risks are seen, prioritized (e.g. Ammarapala and Luxhøj 2007; Ball and Golob 1999), and aggregated (e.g. Anderson et al. 2005; Skoglund et al. 2013) against the backdrop of the prevalent stakeholder conditions before deciding about the appropriateness of the finally selected risk model. Changing the risk model from reactive to proactive (e.g. Hardy and Maguire 2016) will direct the management's perception of risk from actual risks to potential future risks.
2. **Determination of Model Risks.** The second task addresses the determination of model risks. Neither corporate governance nor risk management systematically target those model risks that, according to Derman (1996), generally arise from the use of models that are incorrectly specified or inapplicable to faulty model implementation due to e.g. programming and technical errors, or to bugged application of a model caused by e.g. data issues or calibration errors. Model

risks endanger the success of business models; in order to reduce this effect, the ongoing recontextualization of risk control has to be implemented.

3. **Research and Development in Risk Issues.** Risk governance also covers the R&D tasks in risk issues, to be contextualized for the specific situation of the company. In searching for innovative methods in corporate risk management, such as simulation, forecasting, predictive analytics (e.g. Schlegel 2015), or proactive profiling (e.g. Brooks 2006), risk governance can become the driver for sustainable model exploration. In tracing further developments of risk models, risk governance can integrate new academic progress into currently applied risk models. Digitization is gradually reaching risk governance, methodologically enabling it to use big data (e.g. Kitchin 2014; Simon 2013) as a specific method of pattern analysis based on large volumes of data which opens up new opportunities for detecting company-specific hidden risk patterns.
4. **Risk Consultancy for Top Management.** By enhancing the top management's competences in shaping risk-related behavior by means of risk consultancy, risk governance contributes to the improvement of risk-avoiding goal setting, risk-related transparency, and risk-oriented real-time feedback. Risk consultancy supports top management in coping with business dynamics in terms of flexibly adapting business policy to changing competitive situations and improving the risk-aware fit between the company's strategy, structure, processes, and environment. Risk consultancy also means training top management in respect to integrating, building, and reconfiguring the resources for the company's risk-oriented market responsiveness process.

These four risk governance tasks are not intended to replace either risk management or corporate governance but could complement them in the sense of a meta-level monitoring and advising functionality. They are designed to happen simultaneously as an ongoing repetitive process while being closely interlinked. With the fulfilment of these four tasks, risk governance can efficiently direct overall risk control towards the respective business model. This is expected to result in a well-matched system with high risk governance effectiveness. The implementation of a sustainable risk culture—focusing on cautiousness, transparency, and accountability (e.g. Ingram et al. 2014)—is supported. In the end, top management becomes more competent in terms of risk-related decisions which are expected to increase corporate effectiveness in terms of sustainability, long-term survivability, and value creation by fostering the overall risk robustness of the company.

4 Risk Governance: Tentative Empirical Findings

As a first step of approaching risk governance empirically, we conducted a benchmark study in the German banking sector. The context of banking seems particularly relevant because the European Banking Authority (EBA) explicitly requires the evaluation of banks' business models in terms of "risk governance" (EBA 2014)—although the EBA leaves this term widely unspecified and only implicitly refers to prior definitions in the financial sector (e.g., FSB 2013; IFC 2012). We, therefore intended to validate our conceptualization of risk governance: are banks—at least unconsciously—already turning towards the outlined direction?

In our benchmark study (Wiedemann et al. 2016), we collected data from 96 regionally active German banks (mutual savings banks and cooperative banks) with total assets averaging 4.8 billion euros during the first quarter of 2016 by using a questionnaire with 44 items. For each of the four tasks of risk governance—oriented at the respective literature and subjected to internal consistency tests—several sets of items were formulated to be answered by risk-related deciders according to the perceived degree of satisfaction on a five-point Likert scale from 1 (strongly disagree) to 5 (completely agree). The aggregated variables indicate how advanced the banks already are in regard to the four tasks. Simultaneously, risk governance effectiveness, the impact on risk culture, and the overall effectiveness of the bank were examined.

The tentative findings of the benchmark study (Table 1) show that the observed banks are (unconsciously) engaged in the risk governance tasks 1 and 2 and less in risk governance tasks 3 and 4, despite still having some room for improvement. This is less surprising since risk transformation is the core of a bank's business model. The finding that risk culture is, on average, already well developed is likewise consistent with industry-specific expectations.

It is revealing to observe how the risk governance tasks correlate with the measured effects. It appears that intensifying all of the four tasks comes along with an increase in risk governance effectiveness. In addition to that, all four tasks significantly contribute to the improvement in risk culture which, in this particular banking industry, is a key objective of financial supervision. Finally, it can be shown that the effectiveness of the bank is directly positively influenced by risk governance tasks 3 and 4 and by risk governance effectiveness overall.

The main findings of the benchmark study can be summarized as follows: The more consciously banks handle the four risk governance tasks, the better they perform in respect to active risk culture and, ultimately, their effectiveness as a bank. Obviously, a positive value contribution is reached by risk governance.

5 Discussion and Research Outlook

The contribution that risk governance is expected to make towards corporate success can, therefore be answered clearly: Risk governance supports the sustainability and viability of the business model. Risk governance is a litmus test, showing whether a company actually scrutinizes its business model proactively to all possible risks and in how far it succeeds in not falling back into a routine mode, but being permanently and repeatedly alert.

Risk governance is not primarily directed towards observing compliance rules. It searches proactively for any imaginable risk and prepares the company not only by

Table 1 Findings of the risk governance benchmark study 2016 (n = 96 regionally active German banks)

Variable	Items	Mean	Standard deviation
T1: Design of Risk Models	• Our risk management is strategic • We know the prioritization of different risks • We incorporate the aggregation of risks in our risk control • We differentiate current and potential risks	3.86	.61
T2: Determination of Model Risks	• We know the model risks of our risk models • We regularly scrutinize our model risks • We apply risk simulation models	3.82	.68
T3: R&D in Risk Issues	• Our search for risks is anticipatory • We talk to each other much about the perceptions of risk • We discuss alternative risk models for the same risks • We regard risk considerations of important stakeholders • We systematically take care of new strategies for risk search • In our risk control, big data plays a role	2.99	.54
T4: Risk Consultancy for Top Management	• Our bank top management is internally well advised in terms of risk control • Our bank top management is externally well advised in terms of risk control • Successful risk control affects our incentives • In our bank, risk control is an issue of viability of the bank • In our bank, risk control is an issue of corporate ethics	3.34	.60
Risk Governance Effectiveness	• In general, I think our risk control system is effective • We perceive risk control as a value generating task of our bank • We listen to those in charge of risk control • Our risk control system improves our competitiveness	3.70	.54
Risk Culture	• We have a culture to deal cautiously with risks • I know how our bank management steers the risks of the bank • Our risk control system is developing in the right direction • I know who is responsible for risk control in our bank • I would say that we have a ‘healthy’ risk culture	4.04	.55
Effectiveness of the Bank	• In the last 3 years, we operated successfully • Our net profit after taxes has a positive growth • We see good perspectives for the future	3.59	.74

(continued)

Table 1 (continued)

	Risk Governance Effectiveness	Risk Culture	Effectiveness of the Bank
T1: Design of Risk Models	+.518***	+.577***	
T2: Determination of Model Risks	+.396***	+.417***	
T3: R&D in Risk Issues	+.415***	+.233*	+.214*
T4:Risk Consultancy for Top Management	+.628 ***	+.402***	+.214*
Risk Governance Effectiveness		+.455***	+.266**

Five-point Likert scale form 1 (strongly disagree) to 5 (completely agree); Pearson correlation coefficients

Levels of Significance: *p < .05; **p < .01; ***p < .001

assessing these risks but also by preventing unofficial, informal, and unauthorized malpractices of corporate behavior. This goes beyond the detection of weak signals (Ansoff 1975) in the sense of a strategic early warning system; it secures future legitimacy for the company which, if ever lost, might endanger the existence of the entire company.

Generally speaking, risk governance helps secure the fundamental livelihood of the company, not only in the sense of economic value but also in respect to cultural values in the sense of risk culture, moving towards combining metrics with culture (Gibbons and Kaplan 2015). Risk governance will also serve as a motor for increasing the company's potential for flexible strategy development in the long run. A dynamic system is expected to pursue values such as preference for breakups and risk appetite, but at the same time oriented towards the long-term rationale of strategic sustainability, making the investments and risks worthwhile. The term coined for this short-term flexibility plus long-term strategic sustainability is "strategic agility" (Doz and Kosonen 2010). Viability of modern companies is linked to their capability to meet the paradoxical demands of being flexible risk-takers and sustainable risk-avoiders at the same time. Risk governance serves to resolve inherent contradictions between short-term flexibility and long-term strategy, which become truly apparent in top management.

Nevertheless, some limitations have yet to be addressed in further research. Related to methodology, scales need further improvement, and a more sophisticated measurement of effectiveness additionally based on objective data is needed. Methodologically rigorous and comprehensive examination of content validity and construct validity (e.g. Johnston et al. 2014; Rossiter 2008) of risk governance are in order. Future empirical and practically-oriented studies can build on the introduced basic rationale, thus providing more concrete results than our tentative findings. Due to the given complexity of the risk control subject in general, methodologically, risk governance research is expected to employ methods related to complex systems analysis. Appropriate methods involve, for example, multi-scale analysis (Ahl and Allen 1996), new forms of agent-based system modeling methods such as (risk-related) pattern-oriented modeling (Grimm and Railsback

2005), and agent-based system simulations on the basis of system dynamics (Sterman 2000).

Related to theory, one of the challenges is the scalability of risk governance. Small and medium-sized enterprises (SME) traditionally do not exhibit governance structures as elaborated as those of larger corporations. Their corporate governance—and, therefore, also risk governance—is more implicit and often consists of the entrepreneur's or founder's leadership behavior. It is known that risk-taking of decision makers tends to increase with growing company size (e.g., Bhagat et al. 2015). For that reason, company size represents a relevant situational factor to take into consideration.

Considering the practical application of our conceptualization raises further questions: how can risk governance be institutionalized in companies, both in the structures and processes? How can a company ensure that different risk governance sub functions such as financial risk governance, HR risk governance, or marketing risk governance are well balanced and not dominated by the one with the best available data? But the most virulent question remains how to apply risk governance in terms of linking it to the company's value proposition, business model, and operating model. This requires creating several processes, some of which measuring KPIs related to systemic risk, risk-related stress-testing of business models, simulating the company's risk robustness, and reporting risk scenarios to top management. This requires getting the strategic deciders involved in risk governance. Using all information on corporate risk proactively will end up in making top management rethink basic business model assumptions and in developing top management's dynamic capabilities (Teece 2007; Wang and Ahmed 2007) in the sense of dynamic capabilities as "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments" (Teece et al. 1997, p. 516).

6 Conclusion

In summary, risk governance is a functional regulative system located on a higher-order level, designing risk regulation models for risk management, determining model risks, performing research and development in risk issues, and serving as a risk consultancy for top management. Being committed to the norms of "good corporate governance", risk governance is conceptualized to bridge the gap between a comprehensive corporate governance and operative risk management in the sense of translating legal and regulative necessity to economic benefit and value creation.

This basic rationale of risk governance, independently from industry type, contributes to clarifying the ranges of corporate governance and risk management as well as its not yet covered functionalities. It helps identify blind spots in recent research on risk steering and risk control in a risk landscape subjected to constant transformation.

Risk governance, gradually finding its way into companies—not only into financial institutions—and their corporate culture, is neither a structural element that is “nice to have”, nor a fig leaf to liability law. It is driven by the changing risk structures associated with business dynamics and the aim of making this an ongoing obligation of top management. There is a strategic need for risk governance in companies on both the functional and processual level. We, therefore, expect risk governance to professionalize the individual risk-related decision behavior of top-tier managers and members of the supervisory board as well as to advance the proactive quality of corporate-wide risk control.

The complex risk landscape of a company is likely to be unpredictable and uncontrollable. Nevertheless, risk governance might increase knowability, reduce uncertainty, and make ambiguity slightly more controllable in the end. For that reason, we anticipate for risk governance to render companies more viable and sustainable for the future.

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Internal Control and Social Responsibility

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Abstract This paper aims to expound the connection between internal control and CSR, the purpose of which being to make organisations aware that a rigorous control can actively contribute to an increase in social responsibility regarding all three relevant dimensions associated to it: economic, social and environmental. As a functionality of management, control includes an analytical dimension as well as a field of verification, respectively a "mastering" of contexts, mainly internal, but also external to the organisation.

Our endeavour bears in mind a synthesis and antithesis of the ideas present in the field of expertise associated with control and social responsibility, of regulations provided by various institutions (for example, GRI—Global Reporting Initiative).

From the multitude of indicators presented by GRI, the chapter focuses on the generation of indicators relevant to analysed subject, given that there are no indicators specific to the control function. Thus, the authors, are bound to consider the selection of those indicators which can contribute, through the mediation of internal managerial control, that of risk management and the internal control environment, to the effective increase of social responsibility and the subsequent reports provided by corporations, all these leading to achieving the desired business leadership goals so as to genuinely consider not only the interests of the shareholders but the interests of all stakeholders, and even beyond that the interests of society as a whole. An important part is dedicated to the analysis of indicators and sub-indicators constructive to have or may relate to internal control management, coupled with a qualitative examination of the actual elements of reporting on CSR. On this basis, the authors will be issued comments and observations, suggestions and proposals for better emphasizing rigor in fact and in internal reporting. In conclusion, the authors have focused their research towards the analysis of possibilities and the achievement of internal control in the field of corporate social responsibility, taking into consideration that there are currently numerous research

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papers examining CSR from a global perspective, but not the identification of a connection between control and CSR.

1 Introduction

As it is evident from the theory and practice of international organisation, public speaking constitutes a contemporary issue, aligning respective corporations to certain reports regarding social responsibility.

By analysing the specialised research in our field of expertise, we can see that the part allocated to public reporting regarding internal control is sufficiently discrete. Considering this, we aim at analysing the connection between internal control and CSR by starting from several cases of notoriety: the automotive industry at its very top unscrupulously tampered with indicators regarding the pollution emissions by the vehicles they manufactured and sold; corporations which diluted their medical disinfectants to the point that those substances became useless fluids which were subsequently delivered to medical institutions; commercial banks that are fiendishly preoccupied with better hiding the commissions they use when dealing with their customers etc.

Bearing this in mind, *we therefore have to ask ourselves to what extent can internal control be removed from under the dominance of the company's management as well as from the majority stake holders—when they are represented by a very limited number of people, which would qualify it as being eligible to pass under direct social responsibility towards the public*. Therefore, we appreciate this transition can be achieved by enhancing the transparency of internal control not only within the entity itself, but also on the outside, through consistent and well-defined reporting, so that internal control will achieve a certain autonomy as well as an additional degree of explicit responsibility in the eventuality of extraordinary events. In this respect, both in the specialised research and CSR reports, we have identified certain standards of communication and performance indicators which explicitly or implicitly refer to internal control.

Thus, we are bound to consider the development of these elements through the analysis of the relationship between internal control and CSR, in order to identify patterns which are relevant for specific catalysts whose potential is insufficiently harnessed. We are fully aware that such a difficult issue will mean that our research endeavour will be defined by the limit between the confidentiality and the transparency of businesses, considering that through a better definition of these vectors, generally speaking, we shall try to organise a debate by bringing forth pros and cons having the public interest at heart.

On the one hand, we consider such an endeavour auspicious even though we noticed that we are far from finding the best methodology of quantifying and presenting as it applies to the CSR field of expertise. On the other hand, as we are talking about "dislocating" a portion of the responsibility of management by rendering it transparent, our endeavour becomes extremely difficult. But, in our opinion, considering we are addressing an extremely sensitive topic, we think that such an action would be for the public good, respectively this part of responsibility shall be better emphasised by the reports published by organisations.

Therefore, this chapter aims at contributing to a better understanding of the complex relationship between internal control and CSR, especially through the dilemmas of transparency-confidentiality, social responsibility-healthy profit.

2 The Concept of CSR: The Need for Progress and Reinvention

Corporate social responsibility is a vast modern concept whose recent exploration has led to the uncovering of new meanings. More than that, the concept has experienced significant growth parallel to the development and modernisation of corporations within the new societies in which they exert influence, generating a lot of debate lately.

Social responsibility represents, according to the European Commission (2011), a concept through which entities voluntarily integrate their social and environmental preoccupations within their economic operations and also when it comes to their interaction with interested parties, however, the multitude and diversity of definitions assigned to it has triggered countless controversies among theorists and practitioners alike, leading up to the point that these influences would be considered as being prone to influence by specific interests (Marrenwijk 2003). Unfortunately, what followed could not totally eliminate these "shadows" and there is still talk about the responsibility of the business environment as being "just a façade, social marketing or philanthropy". In a world filled with mistrust, corporate social responsibility must however persuade. This endeavour has grown ever more difficult!

Starting from Milton Friedman's definition, which limits the concept of corporate social responsibility to the activities which enhance profit inside the boundaries of the law, through the adequate use of available resources, moving on towards the communitarian perspective which extends the parties involved in order to include the totality of individuals or groups of individuals directly affected by the actions of a company and then enumerating the various definitions found in the specialised corpus of research (DesJardins 1998; Dawkins and Lewis 2003; Cramer 2004; Crowther and Aras 2008), the definitions provided by the European Union Green Paper—Promoting a European Framework for Corporate Social Responsibility, the European Commission White Paper, The European Environment and Sustainable Development Advisory Councils (EEAC), World Business Council for Sustainable Development, the European Business Network for Social Cohesion—EBNSC in 1996, which became CSR Europe in 2000, "Global Compact", a Code of Conduct which comprises ten principles in the area of human rights, work relations, environment and anti-corruption, as well as an international voluntary network of corporate citizenship, the European Council Resolution, 6 February 2003, on

Corporate Social Responsibility (2003/C39/02), the EU Strategy for Sustainable Development (2006), the Treaty of Lisbon (2009), the ISO 26000 "Social Responsibility" international standard addressed to all types of organisations, from multinationals, to small and medium businesses, public authorities, unions and NGOs (2010), the new Communication regarding CSR for the period of 2011–2014, European Business Ethics Network—EBEN, Social Venture Network (SVN) Europe or the European Social Investment Forum—Eurosif, The Sustainable Development Goals released by the United Nations in September 2015, ultimately compel us to ask ourselves the question: When can a company be considered socially responsible?

Naturally, the answer to this question will be provided by the manner in which we rationalise our own opinions, referencing, experiencing our own reality (as reality can be somewhat subjective when we consider that we are living in a world of uncertainties and scepticism).

Thus, starting from the theory which mentions that a company is considered socially responsible if in addition to upholding its commitments towards its employees, suppliers and clients, it places all of its economic activities under the scrutiny of social values specific to the community where it operates, we have concluded that corporate social responsibility represents involving businesses in improving the quality of life within the communities they are part of and obtaining a *"healthy profit"*, as Richard Branson calls it, quoted by professor C. Popescu (2012), the author of the concept of *Ecolonomy,* who believes that *a deficit in responsibility has, in fact, been the main cause of the crisis*. Moreover, the same renowned professor believes that "our great fortune was the crisis itself" and this is because it can lead to a *human and institutional re-spiritualisation, showing the path needed to build a new society, the ecolonomic society*. In such a society, profit, which is the objective of any business, is "the gain that comes under the form of net ecolonomic income, which draws substance and relevance in the fact that the respective business was beneficial to people, allowing them to enjoy its rewards alongside the entrepreneurs. It is in fact the same vision we encounter in Pindar: a profit a company obtains with the permission of those who generated it".

The business world provides ample examples of successful situations that generate healthy profits, the number one condition being respect and responsibility because "doing the right thing is also good for business". To further support this theory, we join professor C. Popescu in paraphrasing the same Richard Branson (2012) "... *doing the right thing* is not just about not destroying the environment, not just not polluting, but rather eliminating the pollution which has already occurred during the last centuries, since the Industrial Revolution, which means restoring harmony with nature. However, this does not just entail doing less harm; our duty is to improve the lives of all people and our very planet through business".

Moving on to more technical aspects, we bring into focus the five main dimensions of corporate social responsibility, as we have been able to find the in the specialised field of research (Dahlsrud 2007):

- *the environmental dimension*, the relationship with the environment, protecting the environment or changing climate conditions;
- *the social dimension*, the company's relationship with society as a whole, bringing the business environment and other non-governmental organisations together with the purpose of improving the quality of life of the people of the local community;
- *the economic dimension* which deals with economic and financial aspects;
- *the stakeholder dimension;*
- *the voluntary dimension*.

Although, according to the Reputation Institute (2015), the reputation of a company is influenced by seven factors: performance, goods/services, innovation, working conditions, leadership, governance and citizenship, and 40% of a company's reputation is provided by corporate social responsibility, not all companies are aware of the advantages of CSR, and more specifically:

- happy and satisfied employees have a positive effect in increasing labour productivity;
- happy and satisfied customers means a continued relationship;
- positive PR, CSR projects provide free advertising;
- more business opportunities.

Furthermore, we are able to find, in the field of research as well as among certain practitioners, opinions which stand in opposition to CSR. In this context, we find ourselves asking the question: are all the fears of anti CSR supporters valid, or do they actually hide purely economic interests?

Starting from the fact that the main supplier of information from inside any entity is internal control, we are considering strengthening internal responsibility and through our endeavour we aim at capturing certain elements through which this type of control can be transformed and transferred into social responsibility.

3 Internal Control: A Conglomerate, But Just a Component with the Potential to Enhance the Quality of CSR

Concerning the content of internal control, there is no unanimous agreement with regard to the points of view encountered in the specialised works. For instance, in the 1960s, Rathe (1960) identified over 50 different meanings of the word control, while Simons (1990) pointed out, nearly two decades ago, a multitude of inconsistencies surrounding the same theme.

Basically, it seems we are dealing with a linguistic problem rather than an issue of content, but regardless of the terminology used, within the structural meaning of control there will always emerge elements of power, influence and interest, which exist independently, which we can by no means deem independent from control, but rather, we might state that they are intertwined.

In order to rapidly/easily circumvent the slow description of the conceptual consolidation of control, we must affirm that our ideas rely upon the durable concepts elaborated by COSO (Committee of Sponsoring Organisations of the Treadway Commission), which would entail that a fundamental framework of control can implement a sense of order regarding this vague ensemble of means and practices. Furthermore, we are considering that after COSO, the torch was passed to the Canadians who published COCO (Criteria on Control Committee), thus providing us with a shorter definition of control, apparently less clear but extremely compelling.

We believe that a definition of internal control would be the state of composure and drive, restraint and motivation concerning a certain company/issue. Yet, this should not be done subjectively, selfishly, but rather from a perspective of social responsibility in accordance with well-defined performance criteria including social performance, known both inwardly as well as outwardly, leading up to even to the securing of the dissemination of synthesis information that must be both authentic and relevant.

We can bring into focus the so-called state of control, which is, generally speaking, represented by the belief or sense of comfort offered to any person (including simple citizens or third parties) through the method of organisation and functioning of the company in question, in other words, a good organisation in order to reach personal and social objectives at the same time. In this context, we might affirm that although internal, control should concern itself with the social responsibility of its respective entity.

From our perspective, internal control means taking and maintaining the initiative, establishing objectives, maintaining the necessary structure, morale and orders so as to obtain the desired results. And so, we are made aware of the obvious: control is both a principle for building systems, enabling processes and following results, as well as a function, a certain atmosphere mainly internally, which is inevitably proliferated or at least perceived towards the exterior to a certain extent. In this area of redoubling the efforts of internal control and its direct messages towards the exterior, we can state that the core potential of internal control can be found in enhancing CSR.

Moreover, as we are aware of the fact that internal control is an attribute of management, we bring into focus the type of control obtained through complementarity and interdependence, a new paradigm of action desirable in the field, through which the entity is governed both in a participatory manner, as well as transparently, which leads to an overall increase of general synergy, but the result depends on the capacity of the entity's pillars of power (shareholders, administrators/overseers and executives) to make all those involved and/or affected behave as responsible social owners of the entity.

The success of any economic entity is highly reliant on the good relationship it has with its stakeholders, otherwise egocentrism will have an undesired effect. Thus, organisational control becomes or should become, for any honest entity, a social process, probably within a socio-technical system. Unfortunately, in order to raise interest for the creation and implementation of control, the organisations are more preoccupied with finding a rational justification for their irrational actions, rather than secure a thriving harmony and a reasonable degree of transparency.

Eventually, control is an extremely complex concept, which encompasses part of the conception, realisation and functionality of systems in a similar manner (Simons 1995). We consider internal control a complex organisational phenomenon, which necessitates the integration of clear and specific organisation, as an integral part of the architecture and structure of the entity as a whole. Simply put, we believe internal control is represented by the harmonious integration obtained through the organisation which secures the necessary rigour in order to assert influences/ interests as well as achieving the verifications necessary to obtain the desired results, as well as a sense of public accountability which might help raise the social responsibility and awareness of corporations.

The concept of CSR as it is presented to us, perhaps not on the same level, may influence control towards a perception which may appear beautiful, even noble, yet a major risk occurs. Control is an attribute of power, and influence and interest have a shared commonality which entails overlapping and interference to a significant extent; unfortunately, we could say that the better the three attributes merge, the stronger the architect's power becomes—one or more of the pillars of power, parts of a central core of power or associations between various factors of power within an entity, a power which is not only used in the best interest of society.

The solution we see implies reusing an idea mentioned above, where we addressed the issue of an increase in the authority of certain individuals in various corporations, which we consider to be self-evident, however, we are striving to underscore the fact that, among other things, internal control, when designed in honesty and applied through the spectrum of ethics, bearing in mind social responsibility, can contribute to the tempering of such evolutions, which are quite clearly unhealthy, and therefore we must re-orient these elements with predilection towards a general and reasonable transparency regarding all aspects, including the publication of incredibly dense information on the theme of the balanced distribution of power within a corporation versus its social responsibility.

We aware that the implementation of the ideas we support through this research will not be simple at all, quite the opposite, it will be a tough and strenuous process encompassing internal control in its entirety and risk management. Yet, all these, along with certain suggestions regarding public reports associated with this area of expertise, together with the experience of experts in the field, we are convinced of our contribution towards changing organisational structure leading up to culture in general. In the spirit of this objective, we aimed at mentioning the CSR reporting standards which are linked or come close to internal control, so that we may create the opportunity of a succinct analysis that is constructively positive including certain elements which may act as a potential catalyst.

4 Standard Communication and GRI Performance Indicators Connected to Control

Currently, CSR reporting is beginning to stop being a whim of certain companies which want nothing more than to improve their image in the eyes of the stakeholders, but rather a genuine tool of strengthening their own reputation. To a significant extent, one might notice a transition from the concept which predicated that RSC reporting is indeed a measure which became mandatory de facto even in the absence of international regulations or even regional ones.

From the multitude of reporting frameworks that entities may use, in accordance with Directive 2014/95/EU OF THE EUROPEAN PARLIAMENT AND THE COUNCIL from October 22, 2014 to modify Directive 2013/34/EU regarding the reporting of non-financial information and information regarding the diversity of certain enterprises and large conglomerates: national frameworks, EU frameworks such as The EU Eco-Management and Audit Scheme (EMAS) or international frameworks such as Global Compact of the United Nations (UN), the driving principles regarding business and human rights in applying a framework of "protection, respect and mending" within the UN, the Orientations having to do with multinational companies within The Organisation for Economic Co-operation and Development (OECD), the 26000 ISO standard of the International Organization for Standardization, the three-party Declaration which established the guiding principles of multinational companies and the social policy of the World Labour Organisation, the Global Reporting Initiative (GRI) or other recognised international agreements, we have focused our attention on only one considering that a comparative analysis of various reporting frameworks may in itself constitute the object of research.

We have decided to refer to GRI because G4 is the most important tool for reporting durable growth on a global level. The G4 guidelines were developed by Global reporting initiative (GRI) with the purpose of providing a structure which would help organisations report on the economic, environmental and social impact and to use the indicators of performance. G4 recommends 58 Standard Communications and 91 Performance Indicators. In the Implementation Manual, we can see the Principles of Reporting as well as General and Specific Standard Communications.

The reliability of the reporting compels the organisation to gather, register, compile, analyse and reveal the information and processes used in the compiling of a report in a manner which can successfully surpass any scrutiny, thus establishing the quality and importance of information.

Stakeholders should know that a report can be verified in order to establish the accuracy of its content and the extent to which the Principles of Reporting were accurately applied. The information and data included in a report should be confirmed by the internal control and documents subject to review by individuals other than the ones who drafted the respective report. Providing information regarding performance which is not backed by evidence should not appear in a sustainability report, with the exception of the event in which we are dealing with material information, and the report offers clear explanations regarding any uncertainties associated with that data.

Out of the 58 Standard Communications, we believe that the following can provide extensive interest regarding internal control:

G4–33 The assurance deals with the relationship between organisation and suppliers. This standard ascertains the involvement of administrators in obtaining the assurances for organisation's sustainability report. If internal guarantees are not obtainable with respect to sustainability reports, it is recommended that external suppliers should get involved with the specification of the purpose and basis of these findings.

Referring to internal assurances, a paramount role in their achievement is provided by the internal control responsible and competent regarding the verification of the reliability of the information comprised in the reports in accordance with standards.

We have not endeavoured to use this chapter in order to provide a pro and con analysis regarding the suppliers of internal versus external assurance. What we are actually aiming for is to draw attention to the possibility of increasing the role of an internal supplier of assurance in the field, fully aware that providing assurance as a guarantee can rather be obtained through the concerted efforts of both internal and external suppliers.

Concerning the direction of reliability and the relevance of reports having to do with CSR, there is additional support in the action of the codes for corporate regulations, which might require managers to contribute to the confirmation of reports.

Corporate regulations must be approached from the perspective of the role they play in enforcing CSR policies. In addition, we must consider the organisational structure which will show the hierarchy and delegation of authority concerning economic, environmental and social matters. In our opinion, this structure must be connected to the functional structure; so as to properly identify each person who has tasked with economic, environmental and social reporting based on his/her position and level of subordination.

Yet, we are striving to show how internal control may become more competent in this global endeavour. What "liberties" and prerogatives should be attributed to internal control so that it may become a supplier of social trust, in a context of responsible corporate administration.

With regard to internal aspects, G4–40 and 41, they make reference to the structure of the Board of Directors and its Committees, among which is the CSR oversight committee which must consider the manner in which the diversity and independence of members are taken into consideration, if and how shareholders are involved, and most importantly, if the selection is made based on the experience of members in the fields of economics, environment and social responsibility, that will provide the construct of the report. In this respect, we suggest that the selection should include a representative of professional organisations or departmental/financial oversight institutions. Furthermore, emphasis is placed on the verification of avoiding conflicts of interest, by presenting the members performing the CSR report, the existence of majority shareholders, information referring to affiliated parties.

Referring to this last aspect from our analysis, we might suggest the independent connectivity of those responsible with the risk management of confidential information, especially external databases and any other sources, in order to facilitate the detection of conflicts of interests and incompatibilities that cannot be identified from an initial analysis. Bearing in mind that access to such databases is extremely costly, a possible solution may be the creation of a fund for departmental/financial oversight institutions to which every corporation must contribute. Thus, the financial oversight institution can offer access to information exclusively to those dealing with risk management and who are already registered in the database. Separately, the reporting of the entity in question must include the number of major problems linked with conflicts of interest and/or incompatibilities that have been dealt with throughout the duration of the reported year.

Another internal aspect is the presentation of the role of the Board of Directors in establishing, approving and updating the objectives of the organisation, the strategies and policies which generate an economic, environmental and social impact. It is clear that accountability in particular that of the stakeholders of a public limited company is highly diminished. In this sense, we propose an overall increase in stakeholder accountability especially when it comes to CSR, taking into consideration that during the General Meeting of Shareholders, they benefit from additional information.

G4–44 Risk Management, as a part of internal control, must be presented in relation with the involvement of the members of the Board of Directors. Thus, we are compelled to present the particularities regarding the integration of long-term risk elements in strategic planning.

Setting aside the regulatory obligation of risk management to offer “adequate information regarding the aspects which involve the greatest probability of the manifestation of the main risks which bear significant impact” (Directive 2014/95/EU), we consider that the role of this internal control institution may be strengthened with respect to CSR, as previously mentioned, by increasing the autonomy towards the Board of Directors/Oversight.

In connection to external aspect, we should view the relationship between stakeholders and the Board of Directors when it comes to CSR (G4–27). Therefore, we must consider reporting the concerns raised by stakeholders, divided in groups, as well as the manner in which the organisation responded to these core issues and concerns. In addition to this, G4–37 deals with reporting on the consultations between stakeholders and administrators regarding environmental, social and economic issues, as well as identifying and managing the impact of the risks and opportunities referring to aforementioned issues.

Also, in CSR reporting we have to specify the person or committee approving that respective CSR reporting, providing assurances that all material aspects are being dealt with.

We have set out to explore the details referring to GRI requirements regarding certain external aspects, such as consulting groups of stakeholders, underlining the fact that debates concerning risk management once again take centre stage.

With regard to performance indicators, though we cannot foresee explicit tasks of internal control, we are however made aware that the information reported is relevant, and the main supplier of information within any entity is internal control. Therefore, this strengthens the responsibility of internal control, which through our endeavour, we are trying to transform into social responsibility.

However, we have found some performance indicators associated with internal control. Thus, G4–EC1 makes reference to the economic value generated and distributed by referencing income in corroboration with operational costs, employee costs etc. the information regarding the creation and distribution and economic value is provided to the stakeholders as a basis of the way in which the organisation has created wealth, including potential sources based on the data originating from financial departments, treasury or the accounting departments of the organisations.

G4–EC2 tackles the financial implications and additional risks and opportunities for the activities of the organisation due to climate change, which have the potential to produce major changes in the day-to-day running of current operations, income or expenses. For each risk or opportunity, one must consider presenting information relevant to the impact over capital or operational costs, over the increase or decrease in the demand of goods and services, presenting a timetable during which the said implications may occur establishing a direct or indirect relationship, a probability of occurrence as well as the methods being considered in order to reduce risks and subsequent dysfunctionalities manifesting within the organisation.

As we can see from referential indicators, the idea we are supporting is ultimately cultural. But until this can be implemented in the organisational culture, internal control, which is highly sensitive when compared to culture, represents "the vanguard" in the field of CSR. Considering this, it is our belief that it will have to proactively approach social responsibility so that transforming organisational culture into "eco-culture" will be achieved as quickly as possible. For this, however, we believe that internal control should be afforded special treatment.

Therefore, the role of internal control in the increase of the reliability and relevance in reporting as it applies to corporate social responsibility must be analysed through the spectrum of rigorous of internal control mechanisms that will meet the high standards required by regulations, but also the need to increase general responsibility.

5 Solutions and Recommendations

In this context, bearing in mind that there is no perfect method of quantifying and presenting in the field of CSR, as well as the fact that we are addressing detaching a part of responsibility as it applies to the management of control related issues by supporting transparency, we consider that this part of responsibility must be better emphasised in published reports.

We are by no means talking about outsourcing internal control, but rather about a problem found between the boundaries of internal and external control. No matter how we may call it, we believe that a better solution for this issue would entail increasing the contribution of both forms of control in order to strengthen social responsibility through a more applied public reporting as well as a flawless sense of ethics.

In fact, if we are to consider corporate multiculturalism, a global solution would be ensuring that reporting is done only by upholding social responsibility towards society as a whole (at least in the areas of economics, environment and social responsibility) also by harnessing ethics (as simple as it may seem, it is very difficult to put into practice).

Currently, there are several solutions disseminated towards increasing transparency, such as the idea of external publishing of internal audit reports, which is not unanimously accepted, as corporations believe it would compromise confidentiality. In our opinion, this shortcoming might be removed by publishing within the CRS reports solely the number of internal control interventions regarding the cases of social responsibility divided into pollution/environmental protection, labour/employee protection, their rights, the protection of clients/partners etc., which should be presented in detail in AGA/Board of Directors.

The solution we recommend consists of an internal control honestly conceived and ethically applied in a socially responsible manner, which through its propensity towards achieving reasonable transparency in all areas, including the publishing of significantly synthetical information on the subject of the balanced distribution of corporate power, can contribute towards raising social responsibility.

Though we might be suspected of etatism or even centralism, which is by no means the case, it may be interesting to entertain the idea according to which internal control entails succinct reporting directed towards competent authorities in the specific field of expertise required to secure the protection of the structural basis of the entity which may have observed or encountered certain issues or difficulties.

We believe that there should be mechanisms of control created with the purpose of analysing and verifying the criteria of selection of the members of the CSR board.

Also, the verification of the way in which the selection and promotion criteria were upheld can constitute yet another direction in which internal control might constructively act, with certain effects in raising awareness concerning social responsibility.

6 Conclusion and Future Research Directions

In the current chapter, we aim at achieving a thorough analysis of the problems linked to internal control and corporate social responsibility regarding companies, as the subject matter at hand is quite vast, and during the course of our research endeavour we have uncovered new facets of these issues.

In the current chapter, we have not devised a good practice model in the field on CSR, but we have strived to point out and capture certain ideas which we believe may contribute towards projecting such a model that could lead to an increase in the quality of information regarding CSR reporting including increasing social responsibility.

As we have decided on publicly communicating our research theme, examining corporate reporting and their subsequent social responsibilities, we have observed that an important component regarding internal control is quite poorly represented.

Contextualising this, we have asked ourselves the question if a rigorous internal control would also be sufficiently adequate in terms of social responsibility and how to properly handle the problem of boundaries between business confidentiality and transparency.

In general, we believe that there is too much talk and very little action when it comes to social responsibility, sometimes without even knowing too much about the subject. Some individuals do things without reference to actual procedures. Consequently, we align ourselves with the thesis according to which not only is it necessary to ensure good reporting, but also genuine transparency.

By analysing the specialised research in the field and the G4 implementation manual, as well as the CSR reports, we have identified aspects associated to internal control. Within this contextual framework, we have performed an analysis of reporting standards and performance indicators.

We believe that these elements can develop and consequently increase the social/public responsibility of internal control.

A study performed by Schwindenhammer (2013) shows that five German companies (BASF, Bayer, Daimler, RWE and Volkswagen) fully complied with GRI regulations, with the compliance being evaluated by audit service providers. The study makes reference to an analysis performed in 2010, by the Institute for Ecological Economy Research which indicates the fact that the companies which comply with GRI regulations occupy the best spots in the ranking of companies which accurately report sustainability. Nevertheless, the Volkswagen scandal shows that beyond the reports which would aim to portray a certain image of the company, the reality can be significantly different, and even worse in blatant contradiction with these reports, a fact which warrants future research on the methods to bring company reports closer to reality.

Within the operating framework of CSR, internal control can provide a contribution through the methodology of reporting the issue based on which it operates, but also by including it within the framework of CSR reporting or in the integrated reporting of elements which are rather tributary to the process of control or risk management (to an extent which is more detailed or supplementary revised in the report encompassing the requirements of the GRI reporting framework). Certainly, all these shall have an impact on increasing stakeholder trust, as well as the responsibility of those reporting.

In essence, the issues underscored in this paper are related to ethics and, thus, an external auditing would become a regulatory prerequisite from the ethical perspective of all the reports which bear meaning to public interest and public entities, regardless of their nature (actual businesses or public institutions in general).

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Using Constructivist Grounded Theory to Construct a Substantive Theory for Corporate Social Responsibility

Petya Koleva and Rodolphe Ocler

Abstract Grounded Theory strategy (GT) has been introduced almost 50 years ago as the approach developed significantly since that time and contributed to emergence of variety of GT strategies. One of these variations is the constructive turn of Kathy Charmaz. In this paper we demonstrate (1) the potential of Constructive Grounded Theory (CGT) into scientific inquiry on CSR and (2) how the approach was implemented in order to build a substantive theory for CSR by utilising a practical example from a recently completed doctoral study by the lead author.

1 Introduction

GT is considered as one of the most widely recognised and used research strategies in social sciences (Fendt and Sachs 2008; Denzin and Lincoln 2003) with applicability from generation of theories to strategies for data analysis, being used with different approaches and for different purposes, with both qualitative and quantitative data (Sousa and Hendriks 2006). In this study, GT is discussed as a strategy in organisational research only since it was applied as one in a doctoral study on CSR the Middle East. The research aimed to construct a substantive theory for the CSR initiatives of the examined context as CGT guided that process.

2 Different Versions of Grounded Theory

The complexity and unique futures of GT as a mode for conducting scientific inquiry are supplemented by the variety of approaches for GT implementation. The chronological development of the main seminal GT texts is presented in Table 1. This paper will not discuss the differences between these approaches

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Table 1 Seminal grounded theory texts

Year	Author	Title
1967	Glaser and Strauss	The discovery of grounded theory
1978	Glaser	Theoretical sensitivity
1987	Strauss	Qualitative analysis for social scientists
1990	Strauss and Corbin	Basics of qualitative research: Grounded theory procedures and techniques
1992	Glaser	Basics of grounded theory analysis
1994	Strauss and Corbin	Grounded theory methodology: An overview in Handbook of qualitative research (1st edition)
1995	Charmaz	Grounded theory in Rethinking methods in psychology
1998	Strauss and Corbin	Basics of qualitative research: Techniques and procedures for developing grounded theory (2nd edition)
2000	Charmaz	Grounded theory: Constructivist and objectivist grounded theory in Handbook of qualitative research (2nd edition)
2006	Charmaz	Constructing grounded theory: A practical guide through qualitative analysis
2007	Bryant and Charmaz	The SAGE handbook of grounded theory
2008	Charmaz	Reconstructing grounded theory in The SAGE handbook of social research methods
2008	Corbin and Strauss	Basics of Qualitative Research: Techniques and Procedures for Developing Grounded Theory (3rd edition)
2011	Charmaz	Grounded theory methods in social justice research in The SAGE handbook of qualitative research
2012	Charmaz and Belgrave	Qualitative interviewing and grounded theory analysis in The SAGE handbook of interview research: The complexity of the craft
2014	Charmaz	Constructing grounded theory (2nd edition)
2014	Corbin and Strauss	Basics of Qualitative Research: Techniques and Procedures for Developing Grounded Theory (4th edition)

since the main focus of this study is Constructive Grounded Theory. However, it is important to note that regardless of the choice, every GT approach provides a set of analytic tools that can lead to robust and rigours research but is fundamental for scholars to understand the differences between them.

3 Constructive Grounded Theory: Characteristics

Philosophical Positions CGT approach is significantly influenced by the role of researcher and participants, their relationships and the importance of constructing a substantive theory that remains grounded in the data. The approach usually operates within symbolic interactionism and social constructionism as philosophical assumptions. The constructive approach to data collection and analysis allows flexibility and is generally driven by the study analytic needs.

Assumptions for Use of Literature Classic grounded theorists avoid reading the literature (Glaser 1978; Glaser and Strauss 1967). However, according to Douglas (2006: 269) "no researcher is devoid of pre-knowledge, be it closely associated or tenuously linked to that under study". Reading before entering the research field is necessarily according to Smith and Biley (1997) because it allows the researcher to identify what is missing in our knowledge and to acquire better understanding of the research problem. Increasingly, grounded theorists recognise that familiarity with relevant literature and prior knowledge is inevitable since no researcher will initiate a scientific inquiry without having a prior knowledge for the researched phenomena (Charmaz 2014; Thornberg 2012; Clarke 2005). Therefore being an open minded and having the readiness to examine emerging research problems differs from being a blank minded (Creswell 2009). Charmaz (2006) recognises the importance of being knowledgeable about the researched phenomena and initiates her work with review of the literature. This act of reading has an informatory role and aims to familiarise the researcher with what is happening in the field.

Theoretical Sensitivity Theoretical sensitivity is a key component in GT (Bryant and Charmaz 2007). This is multidimensional concept that demonstrates the researchers' level of insight into the examined phenomena. It also reflects on how attuned they grab the complexity of the participant's words and actions and their ability to reconstruct meaning from the data. Charmaz's (2006) position to theoretical sensitivity requires review of literature before collecting the data. As she claimed: "Completing a thorough sharply focused literature review strengthens your argument—and your credibility" (Charmaz 2014:308). For grounded theorists writing a thorough and focused literature often means going across multiple scientific disciplines that consequently would lead to reliable quality and rigour of the research.

Other important tools for theoretical sensitivity are the use of analytic question and gerunds in coding and memo-writing since gerunds foster the theoretical sensitivity of words by overcoming the static frame of topics and turning them into enacting processes. According to Charmaz (2014), coding for themes contributes studies to remain descriptive as the categories developed lose their analytic momentum.

Data Collection and Analysis Charmaz (2014) initiates the data collection by using audio recording of the interviews in order to preserve the participants "tone and tempo, silences and statements". In CGT as well as in other GT approaches, the data collection and data analysis are performed simultaneously as that consequently leads to the construction of analytic codes and categories from the data. Codes are constantly compared and that results in emergence of theoretical categories. This process is journaled though memo-writing where the grounded theorists would map the category building, their properties, relationships between categories and eventual analytic needs of the categories. The former would result in theoretical sampling that would be performed in accordance with the theoretical needs of the categories (Ong 2012).

In terms of coding, Charmaz (2006) uses initial, focused and in vivo coding. In vivo coding aims to construct abstract categories from lexicon phrases used by participants (Charmaz 2014). In vivo codes represent important words or group of words, verbatim quotes from participants used as labels in order to express a specific view (Birks and Mills 2011). CGT also relies on line-by-line coding that minimises researchers' imposition of their preconceived ideas into the data while still pay attention participants' views (Ong 2012). Line-by-line coding results in coding for gerunds that sharpens grounded theorists' use of sensitizing concepts and lead them to define and specify their extant concepts carefully. Once the initial and focused coding are completed, Charmaz (2006) applies the next level of coding called theoretical coding where focused codes are raised to higher analytical units that allows them to speak for themselves while remain close to the data.

Analytic Question The social constructionism in Charmaz's (2006) approach to GT becomes particularly noticeable in the analytic question—"What is happening here?" used for her studies. These results in coding for gerunds that allows identification of actions, perceptions and motivations. Thus, the intention embedded in the analytic question affects the study final results.

Discovery vs. Construct Classic grounded theories approach GT with the idea that they will develop theories, while for Charmaz (2014) "neither data not theories are discovered either as given in the data or the analysis. Rather we are part of the world we study, the data we collect, and the analysis we produce. We *construct* our grounded theories through our past and present involvements and interactions with people, perspectives, and research practices" (p. 17, original emphasis). Thus, researchers and social actors are active participant in the construction of their theories and realities. Creativity of social actors is acknowledged as they are not considered as static observers of the external reality and passive receivers of what occurs out there. Theories do not emerge independently but they are co-created though social actors' prism for reality.

Theorising in GT Constructive approach to theorising in Grounded Theory places priority on the examined phenomena and treats data and analysis as created by the experience of the participants and the researcher. Constructivist grounded theorists seek to study "*how*—and sometimes *why*—participants construct meanings and actions in specific situations" (Charmaz 2014: 239, original italics) by taking a reflexive and interpretive stance. That leads to construction of abstract categories with high analytic value that is consequently formulated in a theory (Charmaz 2006).

As Charmaz (2014: 233) states, "theorising is a practice" and it entails practical activities for engaging the world while constructing abstract understanding about it. The fundamental contribution of CGT according to her is that it guides the interpretive theoretical practice, but does not provide "a blueprint for theoretical products" (Charmaz 2014: 233). Thus, interpretive theorising in Grounded Theory arises from social constructionist assumptions derived from individual, collective and institutional situations based on the symbolic interaction between involved actors (Tavory and Timmermans 2014; Maines 2001; Alasuutaari 1996); it requires "stopping, pondering and thinking afresh" (Charmaz 2014: 244). That allows the grounded theorists to see possibilities, establish connections or ask questions once the data analysis is completed. However, it is very important to clarify that even when the data analysis is officially completed and all categories and properties are constructed, theorising is still an on-going activity. CGT follows abductive reasoning that continues even during the writing-up as new unexpected insights might occur at any point (Charmaz 2014; O'Reilly et al. 2012).

Moreover, use of gerunds for coding foster theoretical sensitivity of theoretical categories because they enact processes rather than constraining data within preconceived topics (Charmaz 2006). Relying on preconceived topics may lead to highly descriptive grounded theory studies with a limited analytic momentum (Thornberg 2012). The categories reflecting the data most effectively, with the higher analytic power are raised and grouped together. A grounded theorist should be able to make an informed decision, identifying which categories have a minor and which ones major analytic value. Once this decision is taken, we group the categories and explicate their properties and connections to other categories (Charmaz 2014).

The process of theorising continues with raising categories to concepts. That means "subjecting them to further analytic refinement and involves showing their relationships to other concepts" (Charmaz 2014: 247). For objectivist, concepts represent core variables with explanatory and predictive power, while for constructivist they provide an abstract understanding of relationships (Alasuutari 1996).

4 Applying Constructivist Grounded Theory in a CSR Research

In this part we present how CGT was practically applied and affected the results in a study on CSR in the Middle East that was primarily focused on identifying meanings and perceptions hold by social actors for the phenomena.

Sampling In order to set up the tone of this study, a pilot phase where secondary (corporate reports) and primary data sources (interviews) from a sample of publicly listed companies (PLCs) were collected, analysed and compared. Following the guidance of CGT, the pilot data collection and analysis occurred simultaneously and that indicated how the initial homogenous sample can be optimised in order to achieve theoretical sensitivity of potential categories and relationships (Charmaz 2006). Although some promising abstract categories were constructed from the pilot data analysis, they were far from being clearly defined. The initial memos created were showing some analytic perspectives but a quick reading was enough to conclude that too much was still unknown or assumed. Despite that collecting data from PLCs indicated some perspective on the subject of inquiry, clearly that was not enough. As result theoretical sampling technique was employed in order to identify cases that will add analytic sharpness of the research and initial categories constructed (Charmaz 2014).

The process of switching from purposive homogenous sampling to theoretical sampling was performed in a complete accordance with the Charmaz's guidance to CGT. According to her, theoretical sampling should be applied after the initial data collection and analysis are performed on the basis of purposive sampling (Charmaz 2011). This strategy helps the grounded theorists to set the foundation of the study, identify variations and differences between categories and consequently collect new sets of data in order the initial tentative categories to be tested. As demonstrated above, this technique was applied in the study once the tentative categories from the pilot data were constructed, not before initiating the main data collection (Charmaz 2006).

By following the analytic needs of the study, data was collected from small and medium enterprises (SMEs), non-governmental organisations (NGOs) and governmental organisations (GOs). The combination of these four groups resulted in obtaining a complete view on the CSR activity in the region from a business, governmental and community perspective. Thus all the pillars of the examined region—society, business and government were covered by following the theoretical and analytic needs of the study. The sampling continued until no new incidents were emerging from the data which indicated that the GT categories were saturated and sampling could stop.

Intensive Interviewing Charmaz (2014) distinguishes informational, investigative and intensive interviewing techniques for data collection and although grounded theorists may combine all of them, she relies mainly on intensive interviewing. When applied correctly, intensive interviewing allows the grounded theorists to explore the participant's perspective on their personal experience with the researched phenomena by combining 'what', 'how' and 'why' questions and as such is considered as a source for an in-depth knowledge of the respondents' worldviews and relation to the phenomena of investigation (Charmaz 2014).

A very important strength of intensive interviewing is its ability to combine flexibility and control as it creates an open interactional space where the respondents could relate and discuss their own experience. By combining these peculiar futures of intensive interviewing with an interview guide that allows space for interaction and further discussion, the complexity and discomfort of the interview situation were overcame and respondents were provided with a feeling of security and no treat of their privacy. The interviews were based on a set of guiding themes that allowed creation of a gently guided conversation with the participants where they could relate on their experience as that opens interactional space for new ideas or issues to be discussed. By constructing non-judgmental questions but rather asking for description of their experience with the researched phenomena, participants were allowed to reflect on it in a way that occurs in everyday life. This

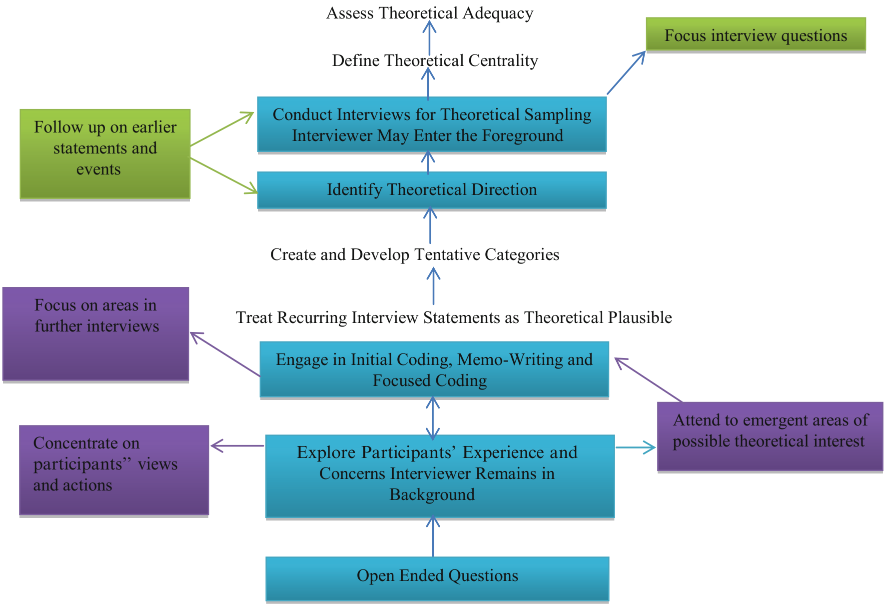

Fig. 1 Interviewing in grounded theory studies. Source: Charmaz (2014: 88)

approach created an environment for conversation where new ideas emerged. Interviewer's role was to observe and listen. Thus, the respondent did most of the talking. The flexibility of this process did not interfere with the quality of the interview discussion and usefulness of its context—the research questions were still there and they had to be find answers to but that has been done by creating environment where respondents felt comfortable enough to share their experience, views and assumptions. Figure 1 demonstrates the overall process and logic of interviewing and that were performed for the pilot and main study.

Data Collection The data collection and analysis were held simultaneously. Each interview and the analysis built from it was informing and affecting the direction of the next interview. The interviews were held in real time.

Once the pilot study data collection and analysis was completed in a trip to the Middle East took place where the UAE and Oman were visited for the main data collection. This trip appeared extremely beneficial since a better understanding of the Arab culture was obtained and that contributed significantly to the study and gave additional analytic sharpness of the substantive theory (Charmaz 2014). Some of the pilot study participants were interviewed again for comparison of data collected within different time and space settings. This approach was particularly helpful since it was used to verify and test results withdrawn within different circumstances (Charmaz 2014). As well, this approach increases the theoretical sensitivity of the GT categories and overall quality and rigour of the study (Denzin and Lincoln 2003).

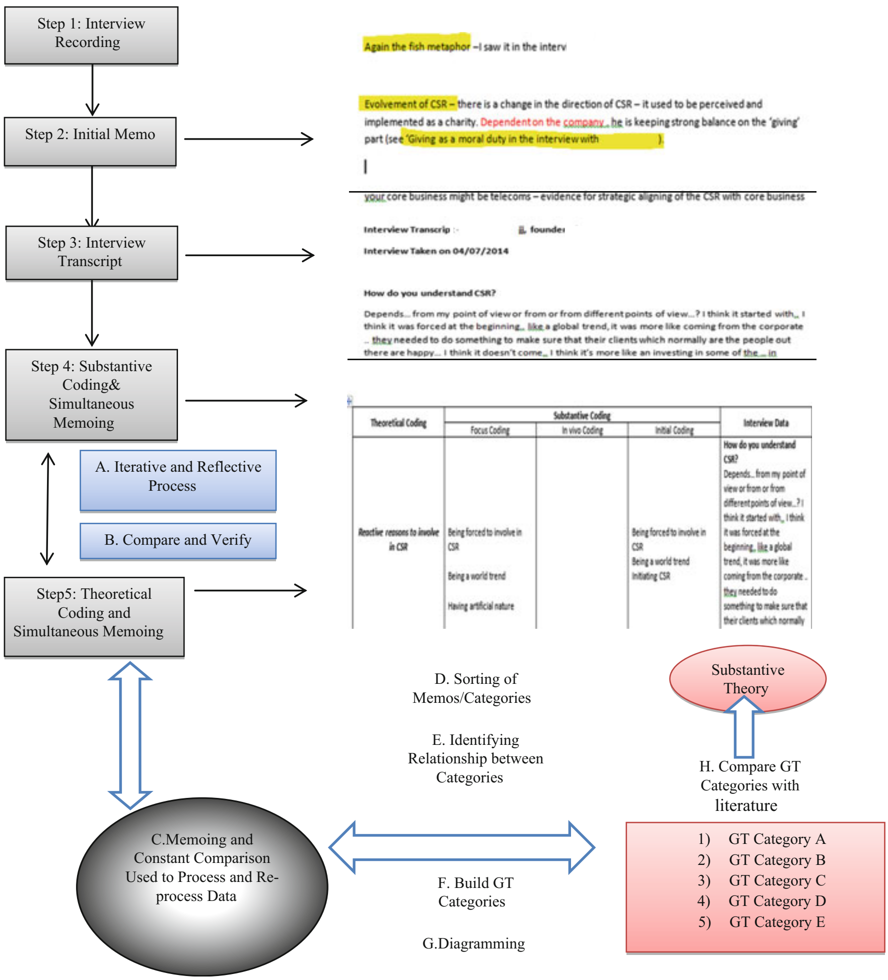

Fig. 2 The process of constructing a substantive theory

Data Analysis or How the Substantive Theory Was Constructed The theory construction began with the analysis of the first interview. Figure 2 uses real examples taken from the GT analysis conducted for the study and is included here in order to illustrate how data was processed in order to construct the substantive theory.

The data analysis process started as soon as the interview recording was completed (Step 1, Fig. 2). Then an initial memo was created. For example, during the interviews, the researcher identified specific metaphor that was commonly used by most of the respondents. Usually metaphors in qualitative studies are associated with an opportunity to examine phenomena from a unique and creative perspective that provides understanding of situation-specific interventions and emotions associated with the phenomena (Carpenter 2008). Hence this metaphor was included in the initial memos as a reminder that the metaphor is used by respondents and apparently contains some specific information that needs to be examined in more details. Subsequently this decision proved to be correct. Consequently the researcher identified that the metaphor an analytic tool that identifies the strong impact of culture and traditions on the perceptions respondents hold for the CSR phenomena. The metaphor was further analysed and consequently used to indicate how organisations engage in CSR practices and the specific CSR attitude exercised by organisations.

Once the interviews were transcribed (Step 3, Fig. 2) the interview data was analysed through substantive coding procedures (Step 4, Fig. 2) that included initial, in vivo and focused coding. The coding process was recorded in the initial memo for journaling and reflective purposes. Moreover, the data coding was affected by processes A and B (Fig. 2) that compared and verified various codes and their analytic value with other comparative tools (e.g. older codes, data, and categories).

In this process, some initial codes were classified as not having representative and analytic significance and were consequently restricted from further analysis. This occurs because Grounded Theory analysis requires coding of every line of information but this doesn't necessarily imply that the line coded will be theoretically significant. For instance, information about the respondents' background (age, nationality, duration of occupancy in the organisation) resulted in initial codes that were consequently discarded due to lack of analytic relevance to the study.

Initial codes verified as having analytic value after the reflective and comparative processes were considered as having potential to deliver analytic insights of the CSR phenomena and as such were raised to focused codes. Focused codes that were tested with various comparative tools and were considered as containing representative value to a specific category were raised to GT categories' properties. Similarly in vivo codes were also tested with comparative tools and were raised to GT categories' properties if verified as theoretically sensitive and representative to the corresponding category.

Theoretical coding was the last coding procedure (Step 5, Fig. 2). Theoretical codes served to indicate how substantive codes relate to each other and create relationships that can be integrated in the substantive theory. Theoretical coding was further completed through theoretical memoing where codes and their properties were summarised and further refined with new codes and properties. That served to indicate the analytic needs of emerging theoretical categories and potential topics that should be examined further. For instance, during the pilot interviewing were obtained insights about the main areas of interest for the study—organisational implications of CSR, motivations, perceptions for CSR and although the categories constructed were far from saturation, they were indicating interesting insights and directions for further examination. As coding progressed through additional interviews, the theoretical memos became more focused on the categories and their properties as they were becoming saturated. Various relationships between categories from different theoretical memos were also identified as a result of reflection and verification of the categories with comparative tools. This process continued until saturation of the categories and their properties was reached.

The course of action encompassing the range from process C to processes G was probably the most crucial and important stage in the entire study since the procedures performed affected the substantive theory construction. Once the data analysis of the last interview was completed, an extensive reflective process of comparison of all memos, categories and codes was performed (process C, Fig. 2). This step aimed to avoid any potential vagueness and to prevent the categories from being too narrow or descriptive. Since the categories represent the backbone of the substantive theory, verification of their theoretical sensitivity and representativeness, regardless of the amount of time invested for this process was crucial. As a result, some of the categories' properties were slightly modified but no significant changes of their structure were made. That verified further their saturation and sensitivity.

Process C set up the foundation upon which sorting of memos and categories was about to be performed (process D, Fig. 2). It is important to mention that processes D, E, F and G are intertwined and cannot be performed separately. The process of sorting of memos and categories led to identification of relationships between various categories that were subsequently diagrammed and presented in a graphic manner. The visual image of a diagram suggested relationships and the content of potential GT categories.

Sorting of memos and categories (Process D, Fig. 2) gave means for creating and refining theoretical links. As a result of the sorting and comparison process some categories were discarded and considered as not having a representative significance for the examined phenomena and as such were prevented from further development. On the other hand, as a result of the data analysis new analytic insights were reached that resulted in construction of new categories that were identified as having analytic potential but were not of interest for the present inquiry and as such were discarded as well.

Process D continued until all theoretical categories and theoretical memos were compared and verified. As a result, new sorting memos were developed that contained information about patterns, potential relationships, new insights and ideas. They set up the foundation for GT and Core category construction (Process F, Fig. 2).

Once Process D was completed, a process of comparison between various categories and sorting memos was initiated. Sorting and comparison of different categories led to identification of relationships between them (Process E, Fig. 2). Further comparison between the categories showed *how* respondents approach their social involvement and what the acts of *giving* of resources to a particular cause or a group of beneficiaries actually *means* to the participants. Variations in terms of *how* the respondents and their organisations engage in *giving* and what giving *means* to them led to the construction of four approaches for conducting CSR in the Middle Eastern region. Once the GT Categories were built, they were compared with relevant theoretical literature (Process H, Fig. 2) in order to identify the novelty

Table 2 Criteria for evaluating grounded theory research

Criteria	Question
Credibility	– Have you reached intimate familiarity with the setting or topic? – Do your data sufficiently support your claims? – Have you made systematic comparisons between categories? – Is there a strong logical argument linking data, argument and analysis?
Originality	– Are your categories fresh? – Do you offer new insights? – What is the social and theoretical significance of your work? – How does it challenge current ideas and concepts?
Resonance	– Do the categories portray the fullness of the studied experience? – Do the findings make sense to those people central to the phenomenon? – Do the findings offer those people deeper insights about their lives and worlds?
Usefulness	– How can your analysis be applied in every day settings? – Does it suggest any generic processes? – Can the analysis spark further research? – How does it contribute to knowledge?
Reflexivity	– Where did this concept come from—the literature, personal experience, or the analysed data? – Does this concept of category apply to other data? – What sort of theory do these relationships and categories represent?

of the findings and position them in the existing CSR knowledge. The resulting GT Categories and relationships identified between them let to the construction of the CSR substantive theory for the Middle Eastern countries.

Quality and Rigour The study used Charmaz's (2006) criteria to quality and rigor (Table 2).

Credibility With regard to credibility the research process has been rigorous, detailed and thorough. That was verified and demonstrated throughout the research process starting from the data collection until construction of the substantive theory. The data collection was driven by theoretical needs of the study, tentative categories, relationships and connections between categories, not the researcher's beliefs. Memoing served the purpose to contain detailed information about when and through what sets of data, collected from what samples and why, saturation of the theoretical categories was achieved. The credibility of the categories, interdependencies and relationships was strengthened by using constant comparison during the analysis between codes, data and categories. Constant comparative tool also let to identification of theoretical needs of the categories as that guided the data collection. Throughout the presentation of research findings, specific concepts and categories were identified, constructed in tentative categories and tested with new sets of data. With the application of abductive reasoning the induced theoretical categories were tested and verified with additional sets of data in order to avoid research bias. Support for these processes has been provided in a consistent manner using both—codes, coding and respondents' comments in the analysis and representation of findings. Connections, interrelations and interdependencies between categories have been identified based on logical argumentation and presented through graphs and models where the reader can see and follow the overall logic applied in the analysis.

Originality This is the first study to have a purely Middle Eastern direction, i.e. to conduct an organisational research within Middle Eastern organisations only; the first one to consider multiple industrial sectors; the first one to investigate CSR within non-governmental and governmental organisations and the first one to consider multiple stakeholder groups. Many of the categories, concepts and arguments presents in the study are also novel and innovative and offer a new perspective on the CSR literature and practice. That will facilitate implementation of CSR initiatives in the Middle Eastern countries and would provide practitioners with knowledge on important factors and dynamics that need consideration before conducting CSR activity. The concepts and arguments constructed in the current study challenge significantly existing theoretical literature and add to the discussion of incompatibility of conventional and occidental managerial and organisational concepts in the context of developing and more precisely Middle Eastern countries.

Resonance The diversity of categories presented and explored in the findings demonstrates a solid and in-depth understanding of the phenomenon under investigation. Furthermore, the findings are presented in a fashion that facilitates their understanding to those individuals central to the phenomenon. Moreover, they provide deeper insights on internal dynamics and contextual factors that prerequisite to their specific experience with the phenomenon.

Usefulness The theory has the potential to be practically applied in organisational CSR practices and to enhance organisational efforts to achieve shared value. The study made significant contributions to CSR and provided opportunities for further research.

Reflexivity This element demonstrates whether the substantive theory constructed was influenced by the beliefs or biases of the researcher. In order to minimise any potential subjective bias in the study findings a constant explicit process of reflexivity on the researcher, the study and the participants was applied. The theoretical categories constructed, relationships identified and codes in the data analysis were scrutinised by asking the evaluation questions developed by Gasson (2004). Any potential subjectivity of the data collection and analysis process was minimized by reflecting on the researcher's position while analysing the data. That was ensured by selecting data based on the study analytic needs, not the researcher position or beliefs. The process was facilitated though memoing and by constantly reflecting and recording on the means through which the theoretical categories were constructed and the analysis by which these means were achieved.

5 Discussion

The study provided a detailed explanation of how a CSR research can benefit by incorporating CGT of Charmaz (2006) as a research strategy. By using the example of a doctoral study that aimed to construct a substantive theory for CSR in insufficiently investigated area the exploration benefited from a research approach not preconceived with a priori assumptions that could force the study in a different direction. The detailed explanation of applying CGT in organisational research presented above seeks to provide mapping that might help other grounded theorists in their research endeavours.

Consistent with Locke (2001) we believe that CGT is particularly appropriate for researching managerial and organisational issues. GT is especially useful in capturing complexity of the context where the phenomena occurs as that enables grounded theorists to understand factors involved in that particular issue (Sousa and Hendriks 2006). As an approach to inquiry, CGT offers well developed and systematic principles that allow researchers to generate theories that transcend and synthesise the literature and shed light where other approaches would fail (Charmaz 2006).

The constructive GT turn of Charmaz (2006) was selected as a research strategy of the doctoral study since her approach was identified as suitable for identification of CSR perceptions, meanings and actions which was in accordance with the study aim. The Charmaz's (2008: 469) approach to GT could be considered as recognising that "social reality is multiple, processual and constructed and the viewer is part of what is viewed". As such, the researcher becomes an active participant in the process of constructing the reality. The constructive turn in her mode to GT increases the flexibility of qualitative studies and simultaneously gives the researcher more focus that many other qualitative research methods would (Charmaz 2008). This is achieved by using a comparative approach in an iterative process during the data analysis by asking analytic questions of these data and emerging analysis. Further, CGT offers explicit guidance for data collection, data analysis and sampling that lead to social scientific theory construction. The strategy provides flexible analytic guidelines that enable researchers to focus on their data collection and to build theories grounded in their data (Charmaz 2006). These guidelines emphasise styling processes in the field settings, engaging in simultaneous data collection and analysis, applying comparative methods and checking and elaborating tentative theoretical categories (Charmaz 2008). Thus the strength of CGT is grounded not only in its comparative methodology but moreover in its interactive nature (Charmaz 2006). Therefore, when applied correctly, CGT "quickens the speed of gaining a clear focus on what is happening in your data without sacrificing the detail of enacted scenes. Like a camera with any lenses, first you view a broad sweep of the landscape. Subsequently, you change your lens several times to bring scenes closer and closer into view" (Charmaz 2006: 14).

6 Conclusion

In this paper, we shed light on the complexity and conflicting use of GTS that will be especially useful for new to the approach researchers. Although research community can benefit from a few organisational studies that have adopted classic GT approach, to the best of our knowledge the constructive turn of GT has been exclusively applied within health and social research. Since the Charmaz's (2006) GT approach is relatively new and grounded theorists still rely dominantly on the classic approaches to GT, we hope that the detailed explanation of applying CGT in organisational inquiry of this scope provided above would encourage more scholars to rely on the constructive turn of GT.

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Cross-Generational Investigation of Ethics and Sustainability. Insights from Romanian Retailing

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Abstract When targeting consumers, retailers have to increasingly rely on ethical principles, motivated by the need to achieve a favourable competitive position in their minds, exhibit a sustainable behavior and ensure the aesthetics and durability of sold merchandise. Business practices such as exploitation of labour, environment pollution, enforcing inhumane working conditions etc. are sanctionable worldwide and are key factors for individuals when taking buying decisions.

Based on a cross-generational empirical analysis in an emerging market, the paper examines their perception level towards ethical principles implemented by fashion, footwear and sportswear retailers when defining a sustainable strategy. The results clearly show that retailers concerned about respecting ethical principles on emerging markets, where consumers tend to be even more rigorous in their judgments of retailers actions and strategies. Regardless of their age, consumers select retailers which implement sustainable strategies, e.g. regarding reduction of pollution, selling green or environmentally friendly products, respect employees and working conditions etc.

1 Introduction

As early as the eighteenth century, Malthus (1798) called attention to the effect of resource depletion on the future of the human society. His writings may be thought of as precursors of the modern concept of sustainable development. In order to secure the sustainable future of the planet, public and private organizations worldwide make sustained efforts to define and implement development strategies that go

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better with the process of globalization (Newell 2012). Consequently, the concept of “sustainable development”, as defined by the World Commission on Environment and Development (WCED 1987), must fall within the realms of “global ecology”.

The lack of a clear and precise legal framework, its biased interpretation, the influence exerted upon the enactment of a legal provision and even its manipulation may create substantial advantages for some multinational corporations (C&A Sustainability Report 2014). Some of these advantages are influence peddling, appropriation of undue (monetary) benefits and/or subsidies, making unauthorized bank transfers, lack of transparency in financial reporting, indirect intervention in the allocation of resources at national level etc. Ensuring adequate life and working conditions for employees and their families, supporting educational, sports and food assistance projects in some Asian countries as well as other similar principles are among the principles of the Kik retailer (HelpandHope 2015).

To create a positive image in consumers’ mind, especially in the young people’s mind, who are much more sustainability-oriented (Barber et al. 2010; Martin and Tulgan 2001; Parment 2013), retailers have to pay greater attention to, and properly manage, the ethical aspects and principles. Employment of minors for various production activities, the extension of working time for employees, failure to consider their rights and the use of materials of questionable quality etc., are ethical challenges that today’s retailer face more and more frequently (McIntyre et al. 1999; Whysall 2000a; Talaulicar 2009). In this context, knowing their own customers’ opinions about their efforts to implement a sustainable and ethical strategy for reaching markets may improve the retailers’ market performance and especially their image.

To assess the extent to which the generations of customers are aware of the ethical actions implemented by fashion, footwear and sportswear retailers, an exploratory and empirical study was carried out among the customers of these retail formats present in Romania. Drawing on the literature, the authors identify the aspects that retailers must carefully pursue in order to improve their positioning strategies. The research findings highlight some managerial implications for fashion, footwear and sportswear retailers, as well as the relationship between sustainable behavior and business ethics.

2 Ethics in Fashion, Footwear and Sportswear Retail

The extent to which a particular type of business behavior may be regarded as ethical in contemporary society represents a theme worthy of a proper debate. Companies have to consider the effects of their own actions on consumers and constantly strive to win consumers’ trust in their products and services and satisfy them. Any failure to do so will prompt customers to shift their interest towards other competitors, which affects the company’s market share, sales and profits (Schramm-Klein and Steinmann 2014). If the company’s approach to target segments and international markets is marked by unethical behaviour, scandals, environment pollution, exploitation of employees or violation of their rights etc., its relationship with the customers may suffer as these can boycott the company's brands, products and services and reorient towards competitors and/or surrogates (Schramm-Klein and Steinmann 2014). That is why full awareness of all aspects that might translate into breaches of business ethics principles is a challenge for retailers. The retailers' success on the market and image among the target segments can only be boosted by studying consumers' behavior and perception of the sustainability practices adopted.

Unethical practices may question the legitimacy of international businesses and change the customers' perception of, and trust in companies, which may impair the effectiveness of market targeting. Therefore, the question arises whether the application of ethical principles to one's own businesses has or has not a "utilitarian" character intended to maximize the benefits from a business for the members of a society. Moreover, one has to determine the extent to which companies may or may not, in the context of globalization and legal regulations, abide by all business ethics norms and fall in line with the interests of all parties involved. This issue has been widely debated by researchers but their opinions are divided (Dunfee et al. 1999; Schramm-Klein and Steinmann 2014).

Several theories have been advanced by the literature for analysing the relationship between ethics and business in general (Whysall 2000b; Roberts 2005; Pretious and Love 2006; Iamandi and Filip 2008; Iamandi 2012; Elbeltagi and Agag 2016; Frunză et al. 2016). Carr (1968) believes that, when fighting for competitive advantage, companies take any steps they deem necessary to maximize their profits and do not think about ethics at all. Friedman (1962) maintains that international businesses should be conducted with maximum legal responsibility and in compliance with ethical norms. Etzioni (2002) reached that conclusion that a company is ethically responsible towards all its stakeholders (business partners, society, customers, etc.). Ethics concerns a wide range of aspects and phenomena within the framework of international business. Regardless of society, culture, subject, organization (Roberts 2005; Pretious and Love 2006; Iamandi 2012), the principles of ethics must be applied with respect to corruption in its various forms (bribery, bureaucracy etc.), labour exploitation of employees, use of minors for profit, discrimination against various social categories, environmental pollution, exploitation of natural resources, deceptive advertising, product or brand counterfeiting, compliance with ethical principles by the company's stakeholders etc. The compliance with, and implementation of various codes of ethics by multinational corporations is so important that many international bodies and organizations have been set up to regulate the manner in which companies should approach the social issues related to employment (ILO 2006), international investments (OECD 2000; ICC 2012), pursuit of the common good (Caux 1994) etc.

2.1 Proper Life and Working Conditions for Employees

Offshoring the production of fashion, footwear and sportswear articles to third countries, other than the company's countries of origin and/or destination, which are mainly in Asia (Ternaux and Kolarova 2007; Totev and Sariiski 2010) often leads to the dissolution of all production capacities in the traditional markets. This raises serious questions about the ethical behaviour of retailers in targeting international markets. Instead of supporting the economy of their countries of origin, retailers opt for increasing their profits by delocalizing their production to countries with low labour costs per hour, to the detriment of countries where such costs are high (Pretious and Love 2006). The wages in Asia are often very low, amounting to an average of about 25–30 euros per month, for a working time that exceeds 8 h/day, 7 days a week (Ausbeutung 2015). According to a recent study, only 1% of the all-in price of a clothing article produced in some Asian countries represents costs for wages and salaries. 11% of the price represents logistics expenses and taxes, 15% is manufacturing costs, 25% is advertising expenses and 50% is the retailer's profit (Arbeitkosten 2015). Therefore, the question arises whether such business is ethical from the viewpoint of international regulations and whether it is fair that corporations in the fashion, footwear and sportswear industry turn huge profits from the extremely low paid work or that their finished products be sold at dumping prices to the "poor" European population (Dabija et al. 2016).

The "Ethical Trade Initiative" association recommends retailers and companies in the fashion, footwear and sportswear industry, which have production units in Asian countries, to define their own ethical behavior standards and norms, which should be strictly followed by employees across all activities, with a view to implementing a market-targeting strategy based on ethical principles (Eti 2015). As they want to produce with minimal costs incurred, retailers often overlook the safety of their employees. For example, a fire that broke out in 2012 in the factory building of a Bangladeshi supplier of fashion articles for the international retailer Kik killed about 300 people because the windows had security bars, the exit corridors were reduced or blocked by piled up raw materials, and the safety regulations were not complied with (Brandopfer 2012). Such poor working conditions translate into serious breaches of deontological ethics. Other Asian retail partners use various devices to watch employees when they work and when they take breaks, record various personal data without the employees' prior consent, prevent them from belonging to, joining or setting up unions while forcing them to sign employment contracts with unfavourable terms (forcing them to work overtime, unpaid time off etc.). There are many examples of breaches of ethical behavior norms, even to the point of forcing employees to buy unsold, expired or defective goods (Pretious and Love 2006; Schramm-Klein and Steinmann 2014).

In order to help the poor families of the Asian workers employed in the company's factories, Kik sells the goods manufactured by these workers through its own stores. The return thus generated is used to support various social projects. Kik also runs blood donation campaigns as well as campaigns for informing people about the dangers and risks faced by consumers when buying counterfeit products etc. (Kik 2014; HelpandHope 2015).

2.2 Relationship with Providers of Raw Materials

Among the ethical measures adopted by fashion, footwear and sportswear retailers in the field of sustainable consumption is drop in the purchase of raw materials and the increased use of old materials, channelling investments in raw materials or organic origin or obtained by fair trade (Martin and Shouten 2012; Dabija and Pop 2013). In this way companies operating in fashion, footwear and sportswear industries contribute to the support of farmers in the poor areas, who obtain a fair price for the raw materials sold, which amounts to a decent standard of living for them (Dabija et al. 2014b).

In order to implement an ethical and sustainable strategy, some companies, such as C&A, strive to overcome such challenges by their efforts to improve the lives of Indian farmers who provide them with certified organic cotton necessary for producing fashion articles. Through its cooperation with various social foundations and organization, the company wanted to provide all farmers and their families with adequate education and training so that these may acquire or improve the knowledge about production processes (Crișan-Mitra et al. 2015). The company believes that, to approach sustainability holistically, it must cooperate with farmers and other stakeholders in the production markets to plan and develop the most "sustainable" fashion articles (C&A Sustainability Report 2014).

2.3 Environmental Protection (Pollution Reduction)

Within their sustainability strategy, some companies run specialized programs for collecting used fashion articles to reduce the consumption of raw materials and natural resources during the production processes and prevent the accumulation of textile wastes which need considerable time to decompose and get neutralized. It is estimated that, depending on their degree of wear, up to 95% of used fashion or sportswear articles may be reused or recycled, an aspect that is in compliance with business ethics (Shen et al. 2012). In order to increase the attractiveness of this strategy, H&M offers shopping vouchers to customers in exchange for their used clothes, depending on weight and number of articles. The articles collected are reintroduced in the process of manufacturing or used for insulation purposes in the auto industry (Rabla H&M 2015). The objective of H&M Foundation is to find the most innovative solutions for the use of textile materials and support the concern's various social products (Conscious 2015).

2.4 Deceptive Advertising

To promote its own collections of underwear and swimwear, H&M decided to use virtual models with computer-generated faces of real, famous people. As the public was not informed of these changes, a serious ethical issue arose: the images displayed a fake female body, which misled potential customers. For example, one of the models was actually very slim, but in the computer-generated image clothed with H&M fashion articles, the hairstyle and make-up made her look cadaverous, attracting trenchant criticism from human rights organizations (Colectie Marni 2015). H&M stated that the purpose of the campaign had been to sell fashion articles, not to advertise female body shapes (Modele virtuale 2015). Another ethical concern was the fact that the body shapes of the models whose faces were displayed on posters were significantly different from the body shapes of the real person, marring the person's public image. H&M was also criticized by skin cancer organizations which attempt to inform the public opinion about the danger of long-term sunlight exposure, especially in the context of excessive suntan images promoted by the company. The retailer countered the criticism by stating that its sole objective was to better spotlight the summer colors of its collections (H&M Bronz 2015).

2.5 Helping the Disadvantaged (Charity)

Textile retailers are faced with image problems caused by the breach of ethical principles not only in the production stage but also in the distribution (marketing) stage. Despite H&M's belief that its sustainability strategy is marked by corporate ethical behavior based on integrity and respect (Strategia H&M 2015), in 2010 the company exhibited irresponsible behavior in a shameful episode harshly mauled by society. On a cold winter night, several trash bags with cut up new clothes were found in the neighbourhood of its Manhattan outlet (New York, USA) (Haine H&M 2015). Instead of being given to poor or homeless people, the unsold fashion articles were ignobly slashed, the sleeves were torn and the shoes pricked to prevent people from wearing them. H&M "skimped" on paying a modest amount for recycling these clothes and changing them into reusable fibres and also refrained from donating them to charities. The company would likely have produced more positive outcomes by running a "green" campaign rather than by dumping the fashion clothes (Kawalek 2015; Haine H&M 2015). Such behavior reflects the company's interest in preventing the creation of a negative image of its own brand if poor people, who usually cannot afford to wear such clothes, were seen or photographed wearing expensive fashion clothes. By destroying the clothes, the company virtually attempts to avoid competition with itself and maintain the exclusivity of its own collections.

2.6 Reduction of Consumption (Quality over Quantity)

The promotion of ethical values in the textile, footwear and sportswear industry contributes to the extension of the product lifecycle and helps companies find possibilities to reuse and/or recycle their products (Niinimäki 2010). Therefore, the aesthetic appeal of a pair of trousers, a blouse, shoe or sports suit etc., is of paramount importance as their design may drive customers to use them for a longer or shorter period of time. A major challenge for the fashion, footwear and sportswear retailer is finding some attractive classic designs suitable for each generation of consumers, which can be worn in multiple seasons. The materials must be wear-resistant and styles (designs) must be sober and modern, so that the fashion articles may be worn in multiple seasons (Niinimäki and Hassi 2011). It is, therefore, recommended that all fashion articles be properly maintained timely repairing, airing, cleaning and less frequent washing and, whenever possible, reconverted to keep pace with the latest fashion trends. Paradoxically, a greater number of fashion articles in the wardrobe of each individual and the less frequent use of each article may represent a viable model of sustainable and ethical consumption in the clothing industry (Niinimäki and Hassi 2011).

2.7 Observing Customers' Consumption Traditions and Customs

When targeting international markets, retailers have to take into account the national traditions, customs and conventions of the various local communities. Europeans and Americans are constantly in search of new models of fashion articles, changing their clothes several times a season. This suits perfectly the fashion, footwear and sportswear retailers as they annually launch several collections as part of their fast-fashion strategy (Swoboda et al. 2010b). On the other hand, the Japanese consumers are more traditionalist and perfectionist, having higher standards when choosing what to wear and preferring to wear a clothing article in multiple seasons. It was especially the fashion retailers that had to adapt to this trend in the Japanese market and pay increased attention to details (design, aesthetics, seams, stitches etc.). To increase their attractiveness and acceptance among consumers, fashion, footwear and sportswear retailers often cooperate with famous fashion designers to promote clothing articles in accordance with the cultural characteristics and traditions of a particular market (Masters 2015).

H&M is another outstanding example of adaptation to the characteristics of various targeted markets. Having to comply with the "Sharia" legal system, the Swedish company decided to open stores in the Middle East (Saudi Arabia, Israel, Jordan, UAE etc.) for women only and where women alone are employed to attend (H&M Orient 2012). Some images in the communication campaign were modified accordingly so that the arms, hips, legs, cleavage etc., may be properly covered (Reclame H&M 2015).

2.8 Brand Counterfeiting

Due to the success and recognition of their products and brands among target segments on the international markets, much famous fashion, footwear and sportswear retailers are confronted with the increasingly frequent ethical challenge related to brand counterfeiting and piracy. It is often the Asian companies that resort to large-scale counterfeiting of original products. Consumers face risks related to the quality of raw materials, comfort and durability of products, health while the company owing the original brand faces legal and ethical risks as well as damage from loss of profits, sales etc. (Dabija et al. 2014a).

Counterfeiting falls short of consumers' expectations as they are not necessarily aware that they were misled, putting the lower product quality down to the producer or distributor. This increases the risk of consumers' shifting attention towards the products of competitors (Swoboda et al. 2010a). To win the customers' trust, counterfeiters use symbols, names and brands very similar to the original ones (Dabija et al. 2014b). Jolidon, producer and retailer of sportswear articles, had to compete in the international markets with fake products from China and Vietnam. To prevent the counterfeiting of its products, the company sent a description of the products along with the visuals that distinguish the original from the fake to the customs authorities of various European states (Jolidon 2015).

3 Methodology and Data

3.1 Research Objective and Operationalization of Constructs

To accomplish the objective of the research, the authors used the survey method and the face-to-face questionnaire as the working tool. The statements were framed to operationalize the theoretical concepts presented in Table 1.

The questionnaire was administered to the representatives of the four contemporary generations: Baby Boomers (born between 1945 and 1964), Xers (1965–1979), Millennials (1980–1994) and Generation Z members (1995–2010) (Barber et al. 2010; Parment 2013). Since the research was only concerned with assessing the consumers' perception of the ethical actions of fashion, footwear and sportswear stores, only the Gen Y member older than 15 were surveyed as these have developed proper tastes and, to a certain extent, make independent shopping decisions. The respondents were approached in various public places, at their home, at the workplace or in front of the visited stores. The persons surveyed were asked

Table 1 Operationalization of concepts

The favourite fashion/sportswear/footwear store ...
... establishes rigorous ethical standards.
... exhibits ethical behaviour when doing business.
... is socially responsible.
... is concerned with improving the welfare of society.
... supports noble causes.
... shows concern for the future of society.
... protects its employees.
... makes sustained efforts to create new jobs.
... informs its customers about the characteristics of the brands sold.

Adapted from Walsh and Beatty (2007); Niinimäki (2011); Martin and Schouten (2012); Dabija and Pop (2013); Schramm-Klein and Steinmann (2014); Dabija et al. (2014b)

to assess their agreement towards the statements presented in Table 1 on a five-point Likert scale.

The selection of the assessed store was made randomly. Respondents were actually asked to name three fashion, sportswear or footwear stores that they frequently visit or know very well. The interviewers were instructed to randomly choose one of the stores previously named by respondents and ask respondents to express their opinion in response to the questionnaire statements. A pre-established quota sampling plan typical of exploratory research (Plăiaș 2008; Dabija 2013) was used to select respondents according to a number of representative socio-demographic variables: age, gender, number of people in a household, net income per person (according to the data from the Romanian Statistical Yearbook 2014). Efforts were also made to ensure territorial representativity in the survey.

Following the collection of answers, these were systematized and subjected to some SPSS tests (checking data accuracy, trustworthiness and internal consistency). Then the Cronbach α coefficient ($\alpha > 0.7$) and the "item-to-total" correlation (Churchill 1991; Dabija 2010) were determined for the previously operationalized statements (Table 1). The results of these tests show a high level of trustworthiness, with values ranging between 0.857 and 0.933.

3.2 Sample Structure

Given its exploratory and experimental nature, the questionnaire was administered through the survey method. Out of about 1500 collected questionnaires, only 952 were validated. These questionnaires contain assessments of independent (mostly Romanian) textile (623 answers), sportswear (187 answers) and footwear (142 answers) stores as well as of producer outlet stores belonging to (mostly foreign) retail chains and hypermarkets (Table 2). The apparently unbalanced structure of the sample, two thirds of which are fashion stores, is accounted for

Table 2 Breakdown of fashion, footwear and sportswear stores by their status (own computation)

Store	Retail chains		Independent store		Outlet		Hypermarket/ Cash&Carry		Total	
	n	%	n	%	n	%	n	%	n	%
Fashion	487	51.16	64	6.72	58	6.09	14	1.47	623	65.44
Sportswear	127	13.34	5	0.53	55	5.78	–	–	187	19.64
Footwear	125	13.13	9	0.95	8	0.84	–	–	142	14.92
Total	540	77.63	78	8.19	121	12.71	14	1.47	952	100.00

by the fact that responses were randomly obtained—respondents were invited to name the favourite store—and the fashion stores far outnumber other categories of stores in the fashion, sportswear and footwear retail.

Among the stores that carry fashion articles are the international retail chains Inditex (Zara, Bershka, Massimo Dutti, Stradivarius, Pull & Bear), New Yorker, C&A, H&M, Kenvelo etc., the independent Romanian stores such as Bigotti, Guara, Effect, Eponje, IQ etc., the outlets Calvin Klein, Hugo Boss, Lee Cooper etc., and the large-area food and non-food stores such as Auchan, Cora, Carrefour or Lidl. Some of the international sportswear retail chains are Decathlon, Intersport, Hervis, the Romanian storesDH Sport, Fashionsport etc., the outlets Adidas, Puma, Nike, Reebook and many others. The footwear stores where Romanian consumers frequently shop are the international chains Humanic, Ecco, Deichmann, the Romanian stores Benvenutti, Ameli etc., as well as the factory outlets such as Marelbo and Clujana. The international chains have an incomparably greater number of stores in Romania than the Romanian distributors and producers, a fact that was confirmed by the 952 answers received. 88.7% (844) of answers were assessments of international chains (64.8% for fashion stores, 13.6% for footwear stores and 21.6% for sportswear stores) and only 11.3% of answers were assessments of Romanian stores (12.2% for fashion, 19% for footwear and 4.6% for sportswear stores).

As far as respondents' socio-demographic characteristics are concerned, the survey took into account their gender, county, residence (urban or rural), household size, education, generations of consumers and income. Initially, the authors wanted to insure the territorial representativeness of the sample but this could not be achieved because of the high costs incurred. The answers were finally collected from several counties of Romania (Alba, Arad, Bihor, Bistriţa-Năsăud, Braşov, Cluj, Harghita, Hunedoara, Maramureş, Mureş, Neamţ, Prahova, Sibiu, Sălaj, Satu Mare, Suceava, Timiş). 53.9% of respondents (513 persons) were women and 46.1% (439 persons) were men (Table 3). Given the nature of the study and the fact that the assessments were made for non-food stores, most respondents were selected from urban areas (87.3%) and only 121 people from rural areas. It is likely that many respondents from rural areas may actually live in the neighbourhood of large urban areas and visit the city dwellers' shopping destinations (Table 3).

18 respondents did not state their income and 32 (3.45% of the sample) said they did not have any income, probably because they were students. At the moment of

Table 3 Socio-demographic characteristics of the sample (own computation)

	Fashion		Footwear		Sportswear		Total	
Store	n	%	n	%	n	%	n	%
Gender								
Male	267	28.0	55	5.8	117	12.3	439	46.1
Female	356	37.4	87	9.1	70	7.4	513	53.9
Total	623	65.4	142	14.9	187	19.6	952	100.0
Residence								
Urban	546	57.4	115	12.1	170	17.9	831	87.3
Rural	77	8.1	27	2.8	17	1.8	121	12.7
Total	623	65.4	142	14.9	187	19.6	952	100.0
Generations of consumers								
Z (1995–present)	149	15.7	26	2.7	41	4.3	216	22.7
Y (1980–1994)	244	25.6	37	3.9	73	7.7	354	37.2
X (1965–1979)	149	15.7	52	5.5	47	4.9	248	26.1
Baby Boomers (1945–1964)	81	8.5	27	2.8	26	2.7	134	14.1
Total	623	65.4	142	14.9	187	19.6	952	100.0
Net income (RON)								
No income	18	1.99	3	0.33	11	1.22	32	3.45
Below minimum wages (925 RON)	58	6.42	4	0.44	17	1.88	79	8.74
Average minimum wage (925–2065)	273	30.20	68	7.52	86	9.51	427	47.33
2× average wage(2066–4130)	165	18.25	52	5.75	83	9.18	300	33.19
4× average wage (4131–8260)	29	3.21	11	1.22	11	1.22	51	5.64
Over four average wages	9	1.00	1	0.11	5	0.55	15	1.66
Total	552	61.06	139	15.38	213	23.56	904	100.00

conducting the research, 8.74% of Romanians had an income below the net national average wage (EUR 206) while most of them (47.33%) earned an income between the national minimum wage (EUR 206) and the net average wage (EUR 459). One third or respondents earn had a monthly income of up to twice the net average wage (EUR 918) and 5.64% of them up to four times the net average wage (EUR 1836). Only 1.66% of respondents win over four times the net average wage (Table 3).

A relative uniformity was noticed with regard to generation representativeness in the sample (Table 3). Thus most respondents belonged to the Millennials (born between 1980 and 1994: 37.2%) but quite a great number of them belonged to Gen Z (born after 1995: 216 persons) and Xers (1965–1979: 248 persons), respectively. Given the nature of the research and the demographic decline, there were fewer surveyed people belonging to the Baby Boomers generation, born between the Second World War and 1964. Overall, the number of Baby Boomers who took part in the survey amounted to 134 persons (14.1% of the total number of respondents) (Dabija et al. 2017).

The interviewees were also invited to state the frequency with which they make purchases in the visited stores. Most persons stated that they visited the fashion

Table 4 Respondents' purchase frequency (own computation)

	Fashion		Footwear		Sportswear		Total	
Store	n	%	n	%	n	%	n	%
Once a year	47	4.9	17	1.8	18	1.9	82	8.6
Several times a year	261	27.4	69	7.2	94	9.9	424	44.5
Monthly	163	17.1	34	3.6	46	4.8	243	25.5
Twice or three times a month	133	14.0	18	1.9	25	2.6	176	18.5
Several times a week	19	2.0	4	0.4	4	0.4	27	2.8
Total	623	65.4	142	14.9	187	19.6	952	100.0

(27.4% of the sample), footwear (7.2%) and sportswear (9.9%) stores several times a year. About one quarter of respondents (Table 4) visit the three types of stores at least once a year, which bespeaks their constant search of new products and articles. The "heavy" consumers, those who visit almost on a daily basis the analysed stores, are few (2.8% of the total number), most of them preferring the fashion stores. There is, however, quite a great number of respondents (176) who stated that they visited the fashion, footwear and sportswear stores twice or thrice a month to discover the latest assortments and brands.

4 Results and Discussion

4.1 Romanian Consumers' Perception of Retailers' Ethical Standards

The respondents belonging to the four generations (Baby Boomers, Xers, Millennials, Generation Z) were asked to assess various actions which, according to the theory and practice in the field, international fashion, footwear and sportswear retail chains should undertake to show evidence of ethical behaviour that supports sustainable development. The first aspect pertained to interviewees' perception of the extent to which retailers have their own ethical standards, which should be sufficiently rigorous, in implementing their daily activities and strategies (Table 5). The data reveal that the various categories of respondents share relatively similar opinions, stating that their favourite fashion, sportswear and footwear stores have sufficiently clear sets of standards which people are properly informed about. However, the most sensitive to, and critical of these standards seem to be the Generation Z members (people born after 1995) who show the least trust in the capacity of the three types of retail formats (average assessment of 3.11) to really apply such standards. Millennials are less demanding in their assessment than those in the next generation (Z) but more demanding than the representatives of the previous generation (X). This was confirmed by individual assessments of fashion (3.15), footwear (3.33) and sportswear (3.15) stores as well as by general average assessments (Table 13). Interesting is the fact that Xers, the parents of today's

Table 5 Retailers' own enforced ethical standards (own computation)

The favourite ... store enforces rigorous ethical standards				
Generation	Fashion...	Footwear...	Sportswear...	Overall
Z	3.13	3.08	3.10	3.11
Millennials	3.15	3.33	3.15	3.26
Xers	3.29	3.49	3.34	3.36
Baby Boomers	3.30	3.22	3.23	3.28
All generations	3.22	3.30	3.19	3.23

children, are the only ones to believe that the analysed retail formats enforce sufficiently stringent standards (general average assessment of 3.36), which was also confirmed by the individual assessment of footwear (average assessment of 3.49) and sportswear (average assessment of 3.34) stores. Baby Boomers are slightly more critical (overall average assessment of 3.28) as their assessment is generally closer to the grandchildren's assessment (Millennials overall average assessment of 3.26) than to their own children's assessment (overall average assessment of 3.36). This may be accounted for by the fact that Baby Boomers, who generally are distrustful, are influenced by their grandchildren when polishing their perception according to the standards of the younger generations (Table 5).

Respondents' concern for the aspects related to business ethics in the fashion, sportswear and footwear trade is more than obvious (overall average assessment of 3.38). Respondents ranked fashion retailers (overall average assessment of 3.41) as the most ethical companies (Table 6) followed by sportswear retailers (overall average assessment of 3.39) and footwear retailers (overall average assessment of 3.39). The most concerned with the ethical behavior of retailers seems to be the older generation, Baby Boomers (overall average assessment of 3.50), most likely because their life experience makes them more demanding with the stores where they shop and think more deeply about sustainability and what they leave behind. On the other hand, at the opposite end is the younger generation, Generation Z (average assessment of 3.27) for whom the business ethics of the analysed stores is not an important factor. This may be accounted for by their youthful inexperience, greater willingness to make and accept compromises as well as their education which is way more permissive than that of other generations. As Table 6 indicates, the other generations have much higher expectations regarding retailers' ethical behavior. Therefore, the generation of Generation Z (young students) or newly employed Millennials is more critical than their predecessors (overall average assessment of 3.32) but less demanding than the Xers (overall average assessment of 3.43). We find interesting the fact that business ethical behavior is very much expected by Millennials from footwear retailers (average assessment of 3.52) and by older people from fashion retailers (average assessment of 3.56). This is generally explained by the fact that these generations are more demanding with the retailers that provide them with the articles of which they are in greater need. We believe that, as generations grow older, they will become increasingly demanding with respect to the ethical behavior retailers have to exhibit within their businesses.

Table 6 Respondents' concern with retailers' ethical behaviour (own computation)

The favourite . . . store exhibits ethical behavior in business				
Generation	Fashion. . .	Footwear. . .	Sportswear. . .	Overall
Z	3.29	3.24	3.32	3.27
Millennials	3.26	3.52	3.30	3.32
Xers	3.45	3.40	3.44	3.43
Baby Boomers	3.56	3.47	3.46	3.50
All generations	3.41	3.35	3.39	3.38

4.2 Retailers' Ethical Behavior Towards Society

Respondents were also asked to express their opinion about retailers' level of social responsibility, as presented in Table 7. Their opinion was quite good as they largely agreed that retailers were very much socially responsible (overall average assessment of 3.31). The Romanian generations do not differ significantly in their assessment of retailers' ethical behavior, only Gen Xers seeming to be slightly more critical (average assessment of 3.29). According to the opinion of this generation, namely, today's parents, footwear retailers in particular seem not to be sufficiently responsible (average assessment of 3.14). Several reasons may account for this situation. Gen Xers are poorly informed about the analysed retailers' social responsibility actions or they faced difficulties when looking for footwear articles for their families. Moreover, due to their active participation in the workforce, Gen Xers are generally more critical of society in general and of various companies and organizations (Table 7) "fighting" for the best position in consumers' mind.

The retailers should also be concerned with finding opportunities to improve the welfare of society as a whole. In this context, all generations of customers stated that their favourite fashion, sportswear or footwear stores (overall average assessment of 3.27) were making major efforts to this effect (Table 8). Although being the most critical with respect to this issue (average assessment of 3.22), Generation Z members believe that the greatest contribution to the welfare of society is made by sportswear stores (3.39), followed by fashion stores (average assessment of 3.15) and footwear stores. Gen Z members are likely to be more familiar with the sportswear stores as many of them do quite a lot of sport or are keen amateur sportspeople, which qualifies them to express a more informed opinion. A possible explanation for this phenomenon stems from the fact that sportswear retailers often have casual collections and the Millennials and Gen Z members buy fashion sportswear articles for daily wear as well. On the other hand, the older generation, Baby Boomers, are of the opinion that all types of retailers, be they fashion (average assessment of 3.32), footwear (average assessment of 3.35) or sportswear (average assessment of 3.34) stores, make remarkable efforts to improve the welfare of society as a whole. It is likely that these stores have managed to develop an attractive offer for this age group whereby they best fulfill their expectations,

Table 7 Retailers' social responsibility (own computation)

The favourite. . .store is socially responsible				
Generation	Fashion. . .	Footwear. . .	Sportswear. . .	Overall
Z	3.38	3.27	3.32	3.32
Millennials	3.32	3.32	3.15	3.31
Xers	3.21	3.14	3.34	3.29
Baby Boomers	3.44	3.24	3.46	3.37
All generations	3.31	3.30	3.28	3.31

Table 8 Retailers' concern with the welfare of society (own computation)

The preferred ... store is concerned with improving the welfare of society				
Generation	Fashion...	Footwear...	Sportswear...	Overall
Z	3.15	3.04	3.39	3.22
Millennials	3.26	3.25	3.14	3.24
Xers	3.05	3.29	3.30	3.25
Baby Boomers	3.32	3.35	3.38	3.34
All generations	3.19	3.20	3.27	3.27

bring them complete satisfaction and hold a favourite position in their mind (Table 8).

The generation X of active, mature people is more critical than the generation of grandparents (Baby Boomers) but less carping than that of young people (Generation Z), as they believe that retailers make a meaningful contribution to the progress of society (overall average assessment of 3.25). The same opinion, albeit with small variations across retailers, is shared by Millennials (overall average assessment of 3.24). It is likely that these generation segments generally identify the efforts made by retailers to support and improve the welfare of society as a whole (Table 8).

Retailers' contribution to the welfare of society cannot be ensured unless they further various good causes, such as the landscaping of parks or other public places, organization of collections for charity, making donations to hospitals, schools etc. The members of all four generations were asked to assess the extent to which their favourite retailers took concrete actions/measures for the benefit of society as a whole, called "good causes". As can be seen in Table 9, the members of all generations agreed that their favourite retailers were successful in carrying out such actions, taking advantage of various opportunities to support the "good" causes on behalf of society (overall average assessment of 3.25). The assessments by the generation members are extremely similar, with slight variations across the types of retail formats. Thus, the Gen Z members (average assessment of 3.30) and Baby Boomers (average assessment of 3.32) believe that fashion retailers are the most frequent and strongest supporters of good causes while Generation X (average assessment of 3.27) and Millennials (average assessment of 3.40) members seem to be convinced that the strongest supporters of such causes are footwear retail stores.

Table 9 Retailers' support of good causes (own computation)

The ... store supports good causes				
Generation	Fashion...	Footwear...	Sportswear...	Overall
Z	3.30	3.15	3.14	3.23
Millennials	3.23	3.27	3.15	3.25
Xers	3.19	3.40	3.17	3.26
Baby Boomers	3.32	3.07	3.12	3.28
All generations	3.28	3.25	3.16	3.25

Quite interestingly, none of the generations believe that sportswear retailers play any major role in supporting various "good" causes (overall average assessment of 3.16). The reason behind this situation may be the fact that fashion and footwear retailers try to a certain extent to raise public awareness about their concrete actions on behalf of society and the number of fashion and footwear stores is greater than that of sportswear stores. Therefore, sportswear retailers may very well carry out specific actions for the welfare of society but the number of such actions is likely smaller than the number of actions by fashion and footwear retailers. To set the matter straight, sportswear retailers should either raise greater awareness about such actions or increase their number so as to win a better position in Romanian consumers' mind (Table 9).

One of retailers' great concerns should also be for the future of society (Table 10). Respondents believe that the analysed retailers are sufficiently concerned with this aspect (overall average assessment of 3.91). They make sustained efforts so that their actions and campaigns (building public parks and playgrounds, supporting environment protection initiatives etc.) may help improve the living conditions within the society in general and within the society where they run production units (factories) or retail stores (distribution). Similar assessments were recorded among Millennials (3.83) and Generation Z (3.87) as well as among Baby Boomers (4.09) and Gen Xers (3.97). While younger persons seem to be more skeptical about the credibility of retailers' efforts and strategies for making a better future for society in general, persons with longer life experience believe that the analysed retailers have good sustainability policies and strategies and are greatly concerned with the future of society, in compliance with the principles of sustainability. On the other hand, sportswear retailers seem to be closest to the principles of sustainability (overall average assessment of 3.99), followed by fashion (overall average assessment of 3.88) and footwear (overall average assessment of 3.74) retailers. This difference in perception may stem from the fact that sport creates new dynamism in society and sportswear retailers are the most willing to innovate for increasing people's sports performance, thus exhibiting sustainable and ethical behavior (Table 10).

Retailers provide their customers with information about the characteristics of their products so that these may be able to distinguish the original products from counterfeit/fake products. As Table 11 shows, the overall average assessment of this action by all four generations is 3.71, which demonstrates a fairly great effort

Table 10 Retailers' concern for the future of society (own computation)

The favourite ...store shows increased concern for the future of society				
Generation	Fashion...	Footwear...	Sportswear...	Overall
Z	3.83	3.67	3.92	3.87
Millennials	3.82	3.60	3.85	3.83
Xers	4.01	3.68	4.14	3.97
Baby Boomers	3.91	4.13	4.24	4.09
All generations	3.88	3.74	3.99	3.91

Table 11 Perception of how much customers are informed about product characteristics (own computation)

The favourite ...store enforces proper policies for informing consumers about its own product/brand characteristics				
Generation	Fashion...	Footwear...	Sportswear...	Total
Z	3.43	3.67	3.56	3.55
Millennials	3.82	3.60	3.85	3.74
Xers	3.67	3.68	3.54	3.65
Baby Boomers	3.91	3.83	3.87	3.86
All generations	3.68	3.73	3.77	3.71

on the part of retailers. Table 11 also presents some variations in perception. Thus, the generation of older people (average assessment of 3.86) believes that fashion; sportswear and footwear retailers have done their best to inform people about the symbols, designs and names of their brands. No matter the context, they can identify the retailers' products and avoid the counterfeit ones. At the opposite end of perception are the Generation Z members (average assessment of 3.55) who state that retailers do not make enough efforts so that their customers may properly identify their original brands. This apparent paradox may be caused by young people's shallowness in retaining information as well as by their distributive attention, which prevents them from remembering all the details.

On the other hand, Millennials who are either newly employed or complete their education (average assessment of 3.74), is more aware of the information provided by retailers for properly identifying their products. Gen Xers, represented by mature, employed people (average assessment of 3.65); believe that retailers could provide them with more information about the design, name and characteristics of the marketed products. This may be due to the fact that Gen Xers would rather knowingly buy fake products to satisfy their desire to wear "brands". However, the price of some fashion or sportswear articles may often be so high that consumers prefer cheaper, no-name products (Table 11).

According to the date presented in Table 11, one can state that retailers make sustained efforts to properly inform consumers about the characteristics of their products and that there is plenty of room for improvement in this respect. Some

Table 12 Retailers' protection for their employees (own computation)

The favourite…store protects its employees				
Generation	Fashion…	Footwear…	Sportswear…	Overall
Z	3.37	3.25	3.54	3.42
Millennials	3.36	3.24	3.21	3.28
Xers	3.27	3.40	3.38	3.35
Baby Boomers	3.43	3.26	3.22	3.31
All generations	3.35	3.32	3.36	3.34

retailers choose to send customers personalized emails in order to inform them of their products but this is not a uniform practice.

4.3 *Retailers' Ethical Behavior Towards Employees*

The fashion, sportswear and footwear retailers also implement an employee-oriented sustainability strategy. In respondents' opinion, retailers are very successful in showing great care and protection (Table 12) for their employees (overall average assessment of 3.34). The most delighted with retailers' dealings with their employees are Generation Z (average assessment of 3.42), followed by Gen Xers (average assessment of 3.35). This may be especially due to the fact that many employees of fashion, footwear and sportswear retailers are young and get along well with most of their peers. However, it is interesting that Millenials, undergraduate or newly employed young people, are less delighted by the manner in which the analysed retailers treat or protect their employees (average assessment of 3.28). Various aspects may account for this situation, such as the experiences these young people went through during some seasonal work or internship when they had first-hand contact with the way in which retailers use their employees for various activities. This is likely the reason why Millenials are less delighted with the way in which retailers select and protect their employees. Baby Boomers are also of the opinion that the analysed retailers are less successful in protecting their employees (Table 12).

With regard to the efforts made to create new jobs (Table 13), the Romanian consumers believe that fashion; sportswear and footwear retailers have generally developed a proper strategy (overall average assessment of 3.35). The respondents of all four generations are fairly satisfied with this action, the most favourable opinion being that of Gen Z members (average assessment of 3.51) for the fashion retailers (overall average assessment of 3.36). This is evidence that Gen Z envisage good employment opportunities with the fashion retailers. The action of creating new jobs is not positively assessed by the generation of older persons in the case of footwear retailers (average assessment of 3.07) likely because the members of this generation are not regarded as potential employees. Respondents' assessment of sportswear retailers is less positive, with the exception of the generation of older

Table 13 Perception of retailers' efforts to create new jobs (own computation)

The favourite...store makes sustained efforts to create new jobs				
Generation	Fashion...	Footwear...	Sportswear...	Overall
Z	3.51	3.35	3.10	3.39
Millennials	3.39	3.46	3.12	3.31
Xers	3.24	3.21	3.21	3.26
Baby Boomers	3.21	3.07	3.42	3.37
All generations	3.36	3.27	3.18	3.34

people who believe that these stores make real efforts (average assessment of 3.42) to create new jobs. Paradoxical as it may seem, their perception is justified by this generation's many years of experience with sportswear articles. Last but not least, Baby Boomers are not frequent shoppers of sportswear articles so that their knowledge about sportswear retailers is likely based more on the retailers' communication with customers or the information obtained from grandchildren and less on their own experience with these stores (Table 13).

5 Conclusions

Many fashion, footwear and sportswear retailers have lately laid down various corporate codes of conduct in which they often refer to ethical principles, social responsibility issues, sustainable consumption, environment protection, human and employee rights, supporting the education of communities in which production facilities are located, punishment for corruption, recycling and/or reusing of goods, the enforcement of strict environment protection standards. Such norms and regulations also stipulate the relationships to be established with business partners (suppliers of raw materials and other goods, producers, transporters, distributors etc.) which, in turn, are required to strictly abide by their own standards (Rehbach 2010; Niinimäki 2011; Kruger et al. 2012; Schramm-Klein and Steinmann 2014; Water 2015).

As the research clearly shows, the fashion, footwear and sportswear retailers always try to apply ethical standards when doing regular business, satisfying their customers' desires and developing their own offers. The ethical behavior of the analysed retail formats is properly perceived by the Romanian consumers as they generally agree that retailers carry out specific ethical actions. Certainly, there is plenty of room for improvement in this regard. Moreover, the retail chains develop strategies that are as socially responsible as to enable the companies to be concerned to a great extent with improving the general welfare of society. All analysed retailers are concerned with the future of society by supporting various good causes, such as environmental preservation, supporting local communities in which production facilities are located, ensuring protection for their employees etc.

The fashion, footwear and sportswear retailers' ethical behaviour goes one step further as companies are willing to ensure protection for their employees and create new jobs.

The twenty first century consumers will "sanction" any retailer that conducts activities contrary to the principles and norms of ethical behavior, cooperates with business partners that indulged in morally wrong or unsound practices or pursue and implement actions contrary to sustainable consumption by shifting their interest towards competitors that constantly apply ethical standards and abide by the "rules of the games", making negative recommendations, ceasing to visit the retailer's store chains and purchasing fewer products in general and its own brands in particular.

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The Correlation between Corporate Governance and Financial Performances in the Romanian Banks

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Abstract This study examines the impact of corporate governance on the financial performances of the banks. For this purpose, we compiled a database including 23 commercial banks in Romania. Starting from a vast reference literature there were identified three characteristics of the board (dimension, the structure from the point of view of the women and of the non-residents) which might have an impact on the financial performance and these characteristics were used as independent variables. The Ordinary Least Squares (OLS) regression from Eviews was used to estimate the relationship between bank performance measures and the independent variables. After the empiric testing, the hypotheses considered within the theoretical section were accepted. Within the first econometric model, the size of the board represented by the supervisory board and the executive board determined a positive and significant impact on the performance. One showed that a numerous board contributes to the increase of the financial value of the considered banks because it assures an efficient supervisory. The second considered model enforced the results provided by the first model, so that the structure of the board determines a positive effect on the performance by means of the non-resident members (the conflicts of interest are reduced) and the presence women in management (new ideas and approaches).

1 General Considerations

The impact of the global crisis affected overwhelmingly the profitability of the banking industry, but they also generated effects on all types of banking products and services offered to the clients, monitoring models and evaluation methods. In consequence, in the developed countries and on the level of the international institutions there were made considerable efforts in order to improve the corporate governance in Banks. In

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this sense, there were elaborated studies, reports and orientations regarding the improvement of corporate governance in the financial institutions. They are distinguished by the objective of the corporate governance in the financial institutions: some of these (Walker 2009, p. 6) arguing the need to apply the shareholder-based approach, others (European Commission 2010, p. 2; OECD 1999; Basel Committee on Banking Supervision 2010)—the stakeholder-based approach in the corporate governance process. The first point of view promotes the idea that the corporate governance needs to serve the shareholders—the proprietors of the company. The second, emphasizes both the interests of the shareholders and of the interested persons, including deponents, employees, clients, tax payers and the society.

The promotion of the good practices in the field of corporate governance in banks represents a long term engagement for the Basel Committee on Banking Supervision, but nevertheless there were registered a series of failures and errors in the field of corporate governance, most of them manifesting this during the financial crisis in the middle of the year 2007. It was about the insufficient monitoring from the council of the higher management, the poor management of the risks and organisational structure and banking activities which were unjustifiable complex or opaque.

In this context the Basel Committee on Banking Supervision updated in 2010 the principles on corporate governance in banks. It is considered that from the perspective of the banking industry, corporate governance implies authority and responsibilities that is the way in which the activity and the business of a bank are governed by the council and by the management, including the way in which these: settle the strategy and the objectives of the bank; determine the tolerance/the appetite of the bank towards the risk; carry on the daily activity of the bank; protect the interests of the deponents, respect the obligations towards the shareholders and take into consideration the interests of other recognised interested parties; align the activities and the corporate behaviour in the hope that the bank will work in a certain and sustainable manner, with integrity and according to the laws and applicable regulations.

On a European level the Basel III Agreement on the access to the activity of the credit institutions and the prudential supervisory of the credit institutions and of the investment companies was transposed through CRD IV (Directive no. 2013/36/EU). The main novelty elements in the field of corporate governance are: the definition of the management body; setting criteria regarding the management body: structure, selection of the members (taking into account the principle of diversity, the knowledge, the experience); the principle of proportionality: reiterating the principle according to the nature, the amplitude and complexity of the risks for the business model, the obligativity of setting a nominalisation committee and an administration committee for the significant risks by the credit institutions, the structure and the responsibilities of those committees, the existence of a risk management position and of a coordinator.

In Romania, this European Directive was transposed in the national legislation by means of:

- the primary legislation—Emergency Government Ordinance (EGO) no. 99/2006 regarding the credit institutions and the capital adequacy approved with modifications and completions by the Law no. 227/2007 with the subsequent modifications and completions;
- the secondary legislation—National Bank of Romania (NBR) regulation no. 5/2013 regarding the prudential requirements for credit institutions.

In the field of corporate governance, the most significant changes are for the EGO no. 99/2006:

- the introduction of stipulations regarding an efficient government ordinance in the credit institutions, meant to contribute to the avoidance of assuming excessive risks and which should allow NBR to monitor the degree of adequacy of the management mechanisms of a credit institution;
- introducing new principles and standards which should be applied taking into account the nature, the expansion and the complexity of the activity of the credit institutions.

2 A Revision of the Literature and the Identification of the Research Hypothesis

While there is a vast literature presenting the main factors influencing the financial performance of the banks, there are less studies regarding the causes related to corporate governance, affecting the performances of the banks. The purpose of this paper is to analyse the existence of some correlations between the corporate governance and the financial performance of the banks and to draw the attention on the effects which the weak corporate governance structures have in the Romanian banks.

As compared to the non-financial companies, the corporate governance for banks generates specific problems as a consequence of some distortions related to the capital and debts governances as they were identified by Hereman (2007, p. 6). A first distortion is the one regarding the conflicts between the shareholders and the management. The conflicts of interests appear in the companies as a consequence of the separation of the right of property and the control function (administrative). The dispersed shareholders are confronted with the free rider problem and have fewer incentives in order to monitor the managers. A second distortion is the one regarding the expropriation of the minority shareholders: the conflicts between the shareholders gaining the control and the minority shareholders. Because the financial products are very opaque, and the balance sheet of the banks are very complex, the inside transactions are harder to control by the small shareholders. The shareholders holding the control can have the power to follow their own private interest in companies. A third distortion is the transfer of risk to the debt owners which have the right only to fixed contractual payments. Favouring the excessive risk-taking by the banks might have external systemic effects as a consequence of the bank failures which might endanger the stability of the entire financial sector.

The need for a corporate governance in the financial institutions was outlined by Ghillyer (2012, p. 88) who considers that this plays a vital role in supporting the integrity and the efficiency of the financial markets. The regulating bodies are preoccupied with the effect that corporate governance has on the performance of the financial institutions because the health of the entire economy depends on their performance (Adams and Mehran 2003, p. 124).

The corporate governance in banks is considered to be very important in the developing economies. This is because in such economies the banks have dominant positions and are important engines for the economic growth (King and Levine 1993 and Levine 1997 quoted in Arun and Turner 2004). The banks from the developing economies are usually the most important funding source for most of the companies, are the main treasurer of the economy.

In a study carried out for European Bank for Reconstruction and Development (EBRD)[1] in 2011 there were identified 12 weaknesses of the South Eastern Europe banks regarding the corporate governance:

- the remuneration of the executives in the higher senior position is not fully aligned with a prudent risk management
- the independence of the external auditors is not totally supported by the monitoring councils and audit committees
- the audit committees are not totally independent
- the monitoring and risk committees are not sufficiently involved in configuring the risk appetite and in monitoring the risk profile of the banks
- the monitoring committees are not independent enough as opposed to the management and the shareholders holding the control of the banks
- the responsibilities of the banks managers and of the shareholders and not clearly defined
- the monitoring committees do not have a sufficiently active role in the development and the approval of the strategic objectives and of the bank budgets
- the monitoring committees of the foreign banks subsidiaries are not on the position to control the local banks operations
- the banks do not publish all the key governance information on their own websites
- do not make regular reports regarding governance matters
- there is no sufficient correlation between the volume of public information and the size, complexity and risk profiles of the banks.

Most of the studies analysing the correlation between the financial performances and the corporate governances were mainly concentrated on certain attributes and dimensions of corporate governance, as for example: the size and the structure of the board, the presence of women in the management board, the level of education and the experience of the members of the board, the structure of the shareholders, the remuneration of the board.

[1] Stilpon, N. (2011). Corporate governance of banks in transition countries – The case of South East Europe, Southeast Europe Corporate Governance of Banks, paper presented under auspices of European Bank for Reconstruction and Development and Nestor Advisors.

2.1 The Size of the Board and the Financial Performance

As for the relation between the dimension of the board and the financial performance there are two different approaches. A first approach supports the fact that a smaller size of the board will contribute more to the success of a company. Yermack (1996) identified a reverse relation between the dimension of the board and the value of the company; the profitability and the efficiency of operation seem to be lower with the growth of the size of the board. Coordination, communication and the decision making problems might affect the performance of the company when the number of directors grows. Therefore, as one additional member is included in the board, there is a compromised potential between diversity and coordination.

However a second approach considers that a higher dimension of the board will improve the performance of a company (Pfeffer 1972; Klein 1998). Studies point out the fact that a more numerous board will support and manage more efficiently the activity of a company due to the organisational culture and to a complex business environment (Klein 1998).

A larger board might offer the diversity which could help companies provide critical resources and to reduce the uncertainties in the environment (Pearce and Zahra 1992; Goodstein et al. 1994).

In another study (De Andres and Vallelado 2008) analysing the characteristics of the board (the structure of the shareholders, the share of the bank industry or the differences in setting the internal regulations) for 69 commercial banks in Canada, the USA, Great Britain, Spain, France and Italy we noticed that including more directors is positively associated with the financial performance (measured with Tobin Q, ROA and ROE).

Lipton and Lorsch (1992) recommend that the number of members in a board should be between eight and nine members.

Starting from the ideas taken from the reference literature we can formulate the first hypothesis of the study as follows:

1. *Is there a positive relation between the dimension of the board and the banking performance, measured in terms of ROA and ROE?*

2.2 The Structure of the Board: The Female Members and the Financial Performance

The importance of nominating women in management position is that this might lead to a growth of the value of the companies from these organisational entities due to their different vision.

The involvement of women in higher management became a very important element in understanding the characteristics of higher management and its implications on the performance of the companies as it is demonstrated by a series of studies carried out in this sense (Burke 1997; Burke and Nelson 2002; Klenke 2003).

The variable regarding the existence of female members in the management of an institution can be extensively seen in the empirical analysis. Vintilă et al. (2014) examined the relation between the share of women in the board and the value of the companies (measured with the value Tobin Q) listed on the Stock Exchange in the period 2007–2011.The study pointed out that the presence of women in the management board positively influences the performance. The representation percentage of women in the management board was of 22.50%.

Researches point out that the growth of diversity in the management board would be positive to obtain critical resources (Pfeffer and Salancik 1978).

Post and Byron (2014) noted that the representation of women in the board is positively connected with the accounting profits and this relation is stronger in the countries where the shareholders are better protected. Although the relation between a female representation in the board and the performance is almost zero, the relation is positive in the countries with a higher gender parity (and negative in the countries with lower gender parity)—probably because the gender differences in the society might determine the evaluations of the investors regarding the future incomes.

The points of view stated above led us to the proposal of the second hypothesis of the study:

2. *Is there a positive relation between the presence of women in the board and the banking performance measured in terms of ROA and ROE?*

2.3 The Structure of the Board: The Non-resident Members and the Financial Performance

Along time we saw that the boards dominated by non-residents help to alleviate the problems of the company by monitoring and supervisory of the opportunist behaviour. (Haniffa and Hudaib 2006). Some studies identified the fact that companies with management boards dominated by foreigners have better performances (Pfeffer and Salancik 1978; Shelash Al-Hawary 2011; De Andres and Vallelado 2008; Vafeas 1999) while other studies did not identify any relation between foreign board members and profit and the value of the company (Weisbach 1988; Daily and Dalton 1992; Daily and Ellstrand 1996; Weir et al. 2001; Bhagat and Bolton 2005).

In a paper (Daily and Dalton 1992) analysing 54 empirical studies related to the structure of the board and the relation with the financial performances of the company there were found less evidence of a relation between the component of the council and the financial performance of the companies.

Besides the effects on the performances, the presence of the foreign managers provides the connections of the companies with the exterior world and contributes to critical resources (Daily and Ellstrand 1996).

Starting from the ideas from the reference literature we can formulate the third hypothesis of the study:

3. *Is there a positive relation between the non-resident members of the board and the bank performance, measured in terms of ROA and ROE?*

3 Methodology and Data

The sample used in developing the model includes 23 commercial banks from the Romanian banking system. The collected data for this study are taken from various resources: official websites of the banks, financial situations published by banks, annual reports and the website of the National Bank of Romania. Therefore, the data regarding the dependent and control variables are from the official websites of the banks and the annual reports—the chapter regarding Corporate Governance. The selection of the banks is not random; all banks taken into account have the same corporate governance system that is a dualist direction.

In order to measure the performance we considered two variables: ROA and ROE. They represent the dependent variables which will be used in the estimations. On the other hand, corporate governance is described according to two dimensions: the structure and the size of the board. We have to take into account the fact that the analysed banking systems have a dualist system of corporate governance, so that we will consider both the supervisory board (also known as the Governing Body by some banks) (SB) and the executive board (also known as the Directorate) (EB).

Because the members of the supervisory board are given a significant importance regarding the bank governance, most of the independent variables are derived from the data collected and related to the supervisory board, while only some of them refer to the executive board.

The supervisory board dimension (SBDIM) and the executive board dimension and the direction (EBDIM) as it is known in some banks is expressed by the logarithm of the number of people from each of them at is was used in other studies as Jackling and Johl (2009) and Fidanoski et al. (2013). The structure of the board as a dimension of the structure of the board is expressed by means of the variables: the non-resident members in the supervisory board (FSB) defined as a proportion of the non-resident members in the total of members from the Supervisory Board, the Women in the Supervisory Board (WSB) defined as a proportion of the women member in the total number of members in the Supervisory Board. Besides these variables, we used another one the Bank Age (BAGE) calculated as a difference between the year of analysis and the year of the bank setup, variable which is not directly connected with the structure of the board but it is used as a control variable.

The descriptions of the variables used in this study are shown in Table 1.

Table 1 Variables used in the study

Variable	Calculation method	Source
Dependent variables		
ROA	PN/Total assets	Annual reports/financial situations
ROE	PN/Equity	Annual reports/financial situations
Independent variables		
SBDIM	The total number of members in the supervisory board	Own calculations based on data from the annual reports of the banks—chapter related to Corporate Governance/banks websites
EBDIM	The total number of members in the executive board	Own calculations based on data from the annual reports of the banks—chapter related to Corporate Governance/banks websites
FSB	Share of the non-resident members in the total number of members from the supervisory board	Own calculations based on data from the annual reports of the banks–chapter related to Corporate Governance/banks websites
WBS	Share of women members in the total number of members from the supervisory board	Own calculations based on data from the annual reports of the banks–chapter related to Corporate Governance/banks websites
Control variable		
BAGE	The difference between the year of starting the analysis and the year of bank foundation	National Bank of Romania (NBR)

Source: Own calculations

Further on one gives details about the model on which the empiric analysis shall be based. Because of the great number of independent variables used in the econometric study, we considered four multiple regressions for catching the relation between the corporative governance and financial performance (expressed by ROA and ROE). Each analysis uses a multiple regression model, starting from the following equation:

$$y_{it} = \alpha_0 + \beta_1 x_{1t} + \beta_2 x_{2t} + \ldots + \beta_n x_{nt} + \varepsilon_{it} \tag{1}$$

where: $t = 1,2\ldots,n$ represents the observations from the sample; y_{it} represents the dependent variable; $x_{1i}, x_{2i}, \ldots, x_{ni}$ represent the independent variables; α_0 represents the constant (the free term); $\beta_1, \beta_2, \ldots, \beta_n$ represent the coefficients of the independent variables; ε_{it} represents the error term of the equation.

We considered necessary to develop two models for catching the relation between the corporative governance and financial performance.

First of all, we considered a model for evaluating the relation between the dimension of the supervisory board and the executive one with the performance of the bank, expressed by means of the following regression equation:

$$y_{it} = \alpha_0 + \alpha_1 SBDIM_{it} + \alpha_2 EBDIM_{it} + \alpha_3 BAGE_{it} + \varepsilon_{it} \quad (2)$$

The following developed model follows the measuring of the relation between the structure of the board and the financial performance, expressed by the equation:

$$y_{it} = \alpha_0 + \alpha_1 FSB_{it} + \alpha_2 WSB_{it} + \varepsilon_{it} \quad (3)$$

4 Results and Discussions

For assuring the robustness of the results, we made a descriptive analysis of the considered variables. Corresponding to the results from Table 2, the distribution of the variables used in the econometric analysis presents positive asymmetry, because skewness has positive values, except for the ROA, ROE, EBDIM, FSB and BAGE variables. The fact that the variables represent positive asymmetry had an increase tendency. The kurtosis provides information regarding the distribution of the variables.

By analysing the statistic information from Table 2 one can observe that only the ROA and ROE variables have a coefficient greater than 3, which involves a leptokurtic distribution (the distribution has the center peak much higher than the normal distribution), namely the probability of occurrence of an extreme event is superior to the probability of occurrence of that event involved by a normal distribution. The other variables have a platykurtic distribution (the distribution is less peaked than the normal distribution), since the value of the flattening coefficient is lower than 3.

Jarque-Bera tests whether a distribution is normally distributed. One can notice the fact that all the variables have a probability greater than 0.05, which determines an acceptance of the null hypothesis according to which the series are normally distributed.

Taking into account the great number of independent variables used in the econometric study, we considered elaborating multiple regressions to catch the correlations between the corporate governance and the financial performance (expressed by ROA and ROE).

The work algorithm aims the successive adding of independent variables for each considered regression, one managing in this manner to catch the impact the considered independent variables have on the dependent variables.

For the first considered model, which analyses the influence of the dimension of the supervisory board and the executive board on the financial performance, two multifactorial regressions were achieved by using panel data. Thus, in the first multifactorial regression the dependent variable is represented by ROA, the results being given in Table 3.

The regression equation is: ROA = 1.10 * SBDIM − 4.09 * EBDIM + 1.07*BAGE − 6.079 + [AR(1) = 0.93].

Table 2 Descriptive statistics

	ROA	ROE	SBDIM	EBDIM	FSB	WBS	BAGE
Mean	−0.84	−8.79	7.27	4.86	60.55	14.46	18.20
Median	0.18	1.10	7.00	5.00	75.00	11.11	19.00
Maximum	5.48	18.60	12.00	8.00	100.00	42.80	25.00
Minimum	−44.65	−307.10	3.00	2.00	0.00	0.00	7.00
Std. dev.	5.86	41.50	2.14	1.77	38.86	15.42	4.94
Skewness	−6.20	−5.66	0.33	−0.15	−0.65	0.55	−0.38
Kurtosis	46.63	40.15	2.29	1.84	1.82	1.82	2.07
Jarque-Bera	5916.02	4337.90	2.72	4.13	8.93	7.51	4.15
Probability	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sum	−58.51	−606.81	502.00	336.00	4178.27	998.13	1256.00
Sum sq. dev.	2338.36	117,137.5	311.76	213.82	102,739.1	16,173.17	1663.15
Observations	69	69	69	69	69	69	69

Source: Own calculations achieved in Eviews

For the SBDIM, EBDIM and BAGE variables P-value is 0.00, 0.00 and $0.00 < 0.05$ respectively which means that these variables are significant and an increase of these variables by one unit generates an increase by 1.10, a decrease by 4.09 units and an increase of ROA by 1.07 units.

The determination coefficient R-squared is 0.78, which shows the fact that 78% of the ROA variation is explained by the evolution of the independent variables included in the regression. The adjusted value of the determination coefficient is 0.77, approximately equal to the determination coefficient and explains the fact that the sample is representative for an as most concise depiction of reality as possible.

The statistic Durbin Watson (DW) is a statistic test which tests the serial correlation of the errors. If the errors are not correlated, then the value of this test will be around 2. In the example below this indicator has the value 2.16, and therefore, there is no serial correlation of the errors between the independent variables and ROA. A small value of the Akaike, Schwarz and Hannan-Quinn criteria indicate a good specification of the model.

In the second multifactorial regression, the considered dependent variable is ROE, the results obtained being presented in Table 4.

The regression equation is: $ROE = 4.36 * SBDIM - 30.17 * EBDIM + 5.81 * BAGE + 14.51 + [AR(1) = 0.92]$.

For the SBDIM and EBDIM and BAGE variables P-value is $0.12 > 0.05$ and 0.00 and $0.01 < 0.05$ respectively which means that only the last two variables are significant and an increase of these variables by one unit generates a decrease of ROE by 30.17 and an increase of ROE by 5.81 units respectively. P-value for the SBDIM variable is $0.12 > 0.05$ which means that the influence of this variable on ROE is not significant.

The determination coefficient R-squared is 0.77, which shows the fact that 77% of the ROE variation is explained by the evolution of the independent variables included in the regression. The adjusted value of the determination coefficient is

Table 3 The estimation of the results in case ROA is the dependent variable

Dependent variable: ROA				
Method: Panel Least Squares				
Date: 11/11/16 Time: 01:14				
Sample (adjusted): 2013 2015				
Periods included: 3				
Cross-sections included: 23				
Total panel (balanced) observations: 69				
Convergence achieved after 28 iterations				
Variable	**Coefficient**	**Std. error**	**t-Statistic**	**Prob.**
SBDIM	1.106419	0.395840	2.795118	0.0056
EBDIM	−4.099836	0.449001	−9.131015	0.0000
BAGE	1.075940	0.340790	3.157194	0.0018
C	−6.079877	8.036704	−0.756514	0.4501
AR(1)	0.938616	0.019310	48.60799	0.0000
R-squared	0.782691	Mean dependent var		−0.725170
Adjusted R-squared	0.779186	S.D. dependent var		5.373158
S.E. of regression	2.524893	Akaike infocriterion		4.709839
Sum squared resid	1581.021	Schwarz criterion		4.779669
Log likelihood	−590.7947	Hannan-Quinn criter.		4.737934
F-statistic	223.3080	Durbin-Watson stat		2.163559
Prob(F-statistic)	0.000000			
Inverted AR roots	0.94			

Source: Own calculations achieved in Eviews

0.77, equal to the determination coefficient and explains the fact that the sample is representative for an as concise depiction of the reality as possible.

The statistic Durbin Watson (DW) is a statistic test which tests the serial correlation of errors. If the errors are not correlated, then the value of DW shall be around 2. In the example below this indicator has the value 2.16, and therefore, there is no serial correlation of errors between the independent variables and ROE. A small value of the Akaike, Schwarz and Hannan-Quinn criteria indicate a good specification of the model.

The obtained regressions are the result of the successive adding of the relevant considered variables in explaining the financial performance, starting from a basic specification which initially takes into account only the dimension of the supervisory board. By analysing the results obtained for the first considered model, one observes that the explicative power of the determination coefficient is substantially improved as new variables are introduced. Thus, the maximum value, of 77%, is obtained at the time of introducing in the model the control variable, BAGE, supporting the idea according to which the older banks can have better results than the new ones. One expects for the new companies to have lower incomes than the older ones, because they have less experience on the market, they are still in the

Table 4 The estimation of the results in case ROE is a dependent variable

Dependent Variable: ROE				
Method: Panel Least Squares				
Date: 11/11/16 Time: 01:15				
Sample (adjusted): 2013 2015				
Periods included: 3				
Cross-sections included: 23				
Total panel (balanced) observations: 69				
Convergence achieved after 20 iterations				
Variable	**Coefficient**	**Std. error**	**t-Statistic**	**Prob.**
SBDIM	4.363995	2.832150	1.540877	0.1246
EBDIM	−30.17073	3.278341	−9.203048	0.0000
BAGE	5.814424	2.264191	2.567992	0.0108
C	14.51777	53.10981	0.273354	0.7848
AR(1)	0.928077	0.020004	46.39474	0.0000
R-squared	0.775576	Mean dependent var		−8.085731
Adjusted R-squared	0.771957	S.D. dependent var		38.30076
S.E. of regression	18.29010	Akaike infocriterion		8.670162
Sum squared resid	82962.86	Schwarz criterion		8.739991
Log likelihood	−1091.775	Hannan-Quinn criter		8.698257
F-statistic	214.2634	Durbin-Watson stat		2.165347
Prob(F-statistic)	0.000000			
Inverted AR roots	0.93			

Source: Own calculations achieved in Eviews

building phase of the position on the market, which determines higher costs (the complexity grows proportionally to the age of the bank).

The results obtained in the case of the first model shows the fact that the dimension of the supervisory board (SBDIM), and the one of the executive board (EBDIM) is positively related to the bank profitability and also significant, from an increase by 1% of the SBDIM number, ROA increases by 1.10% and ROE by 4.36%. This thing means that the appointment of new members regarding one of these boards shall determine that the process of making decisions should produce an increase of the profitability.

Thus, taking into account the results of the analysis regarding the impact of the corporate governance on the bank performance, the considered first hypothesis is accepted.

The final conclusions regarding the first model which follows the analysis of the impact of the financial governance (measured through the dimension of the board) on the financial performance, shows that the older banks and also those with a more numerous board contributes to the increase of the value of the analysed banks.

The last part of the econometric analysis is concentrated on the second model, regarding the relation between the structure of the board and the financial

Table 5 The estimation of the results in case ROA is a dependent variable

Dependent Variable: ROA				
Method: Panel Least Squares				
Date: 11/11/16 Time: 01:06				
Sample (adjusted): 2013 2015				
Periods included: 3				
Cross-sections included: 23				
Total panel (balanced) observations: 69				
Convergence achieved after seven iterations				
Variable	**Coefficient**	**Std. error**	**t-Statistic**	**Prob.**
FSB	0.019341	0.022684	0.852602	0.3947
WBS	0.105526	0.042556	2.479708	0.0138
C	−2.670320	1.912127	−1.396518	0.1638
AR(1)	0.784212	0.028741	27.28508	0.0000
R-squared	0.743808	Mean dependent var		−0.725170
Adjusted R-squared	0.740722	S.D. dependent var		5.373158
S.E. of regression	2.735978	Akaike infocriterion		4.866539
Sum squared resid	1863.909	Schwarz criterion		4.922403
Log likelihood	−611.6172	Hannan-Quinn criter.		4.889015
F-statistic	240.9763	Durbin-Watson stat		2.235583
Prob(F-statistic)	0.000000			
Inverted AR roots	0.78			

Source: Own calculations achieved in Eviews

performance. One will further on consider other two multifactorial regressions which use panel data analysis.

The third regression aims ROA as dependent variable, within the second model, the results being represented in Table 5.

The regression equation is: ROA = 0.01 * FSB + 0.10 * WBS − 2.67 + [AR (1) = 0.78].

For FSB and WBS variables the P-value is $0.39 > 0.05$ and $0.01 < 0.05$ respectively which means that FSB is non-significant variable and WBS is significant variable and an increase of these variables by one unit generates an increase of ROA by 0.01 and by 0.10 units respectively.

The determination coefficient R-squared is 0.74, which shows that 74% of the ROA variation is explained by the evolution of the independent variables included in the regression. The adjusted value of the determination coefficient is of 0.74, equal to the one of the determination coefficient and explains the fact that the sample is representative for the as concise depiction of the reality as possible.

The statistic Durbin Watson (DW) is a statistic test which tests the serial correlation of the errors. If the errors are not correlated, then the value of DW shall be around 2. In the example below this indicator has the value 2.23, and therefore there is no serial correlation of the errors between the independent

Table 6 The estimation of the results in case ROE is a dependent variable

Dependent Variable: ROE				
Method: Panel Least Squares				
Date: 11/11/16 Time: 01:07				
Sample (adjusted): 2013 2015				
Periods included: 3				
Cross-sections included: 23				
Total panel (balanced) observations: 69				
Convergence achieved after six iterations				
Variable	**Coefficient**	**Std. error**	**t-Statistic**	**Prob.**
FSB	0.163704	0.162130	1.009712	0.3136
WBS	0.732312	0.304778	2.402773	0.0170
C	−24.58019	13.70591	−1.793401	0.0741
AR(1)	0.778372	0.029664	26.23990	0.0000
R-squared	0.730187	Mean dependent var		−8.085731
Adjusted R-squared	0.726936	S.D. dependent var		38.30076
S.E. of regression	20.01425	Akaike infocriterion		8.846450
Sum squared resid	99741.98	Schwarz criterion		8.902314
Log likelihood	−1115.076	Hannan-Quinn criter.		8.868926
F-statistic	224.6207	Durbin-Watson stat		2.208750
Prob(F-statistic)	0.000000			
Inverted AR roots	0.78			

Source: Own calculations achieved in Eviews

variables and ROA. A small value of the Akaike, Schwarz and Hannan-Quinn criteria indicates a good specification of the model.

Further on, the multifactorial regression with number 4 takes into account ROE as dependent variable, the obtained results being displayed in the Table 6.

The regression equation is: ROE = 0.16 * FSB + 0.73 * WBS − 24.58 + [AR (1) = 0.77].

For the FSB and WBS variables the P-value is $0.31 > 0.05$ and $0.01 < 0.05$ respectively which means that FSB is a non-significant variable and WBS is a significant variable and an increase of these variables by one unit generates an increase of ROA by 0.16 and 0.73 units respectively.

The determination coefficient R-squared is 0.73, which shows that 73% of the ROA variation is explained by the evolution of the independent variables included in the regression. The adjusted value of the determination coefficient is 0.72, approximately equal to the one of the determination coefficient and it explains the fact that the sample is representative for an as concise depiction of the reality as possible.

The Durbin statistic Watson (DW) is a statistic test which tests the serial correlation of errors. If the errors are not correlated, then the value of DW shall be around 2. In the example below this indicator's value is 2.20, and therefore, there is no serial correlation of errors between the independent variables and ROA. A small value of the Akaike, Schwarz and Hannan-Quinn criteria indicates a good specification of the model.

As it was specified in the first model, the obtained regressions are the result of successive addition of the relevant considered variables in explaining the financial performance. By analysing the results obtained for the second considered model, one observes the fact that the explicative power of the determination coefficient is substantially improved as new variables are introduced, the maximum value being 73%.

One observes a positive correlation concerning the non-resident members (FSB) and the performance. This result supports the argument according to which adding non-resident managers improves supervisory activity and reduces the conflict of interests between the interested parties, as it is specified in the specialty literature. Plus, in case a bank appoints a new non-resident manager, with consultancy skills, the strategic decisions should improve, as long as the managers' counselling skills complete the ones of the general manager. Therefore, we should expect to see improved performances on the bank. The greatest influence can be observed on ROE where, at an increase by 1% of the number of non-resident members, its value increases by 0.16%, comparatively to 0.01% within ROA. Thus, taking into account the implications presented above, one accepts the third hypothesis according to which there is a positive correlation between performance and the existence of the non-resident members within the board. However, one can observe that in the case of the Romanian banks the positive influence the non-resident members have on the bank performance is not significant from the statistic point of view which could point out the fact that the resident members also have enough managerial qualities and skills to allow them a good management of the bank activity.

Also, among the independent variables considered in this model, the greatest influence on the financial performance is represented by the weight of women (WBS) among the members of the managing boards. Of the two considered dependent variables, one can observe that the WBS has a greater influence on the ROE. Thus, at an increase by 1% of the weight of women among the members of the managing boards, ROE shall increase by 0.73%. Women who hold executive manager positions register a greater performance measured by the conflict solving, adapting to change, and also the development of qualities and skills.

Another argument regarding the positive and significant impact they have on the performance is also supported by the fact that women prove to be younger than their male gender counterparts and thus the board benefits from an infusion of new ideas and approaches. They also differ in visions, values and ways of expressing their opinions. In other words the diversity of the board contributes to the increase of the value of the bank. Thus, the diversity of the board contributes to the increase of the value of the bank. The obtained results support the considered second hypothesis, according to which there is a positive correlation between the female gender members of the board and the financial performance.

5 Conclusions

By this study we followed the impact of the corporate governance (represented by the dimension and structure of the board) on the financial performance (measured through ROA and ROE) among the banks in Romania. Taking into account the results obtained on this theme in the specialty literature, we built three research hypotheses, and two econometric models. The first model aims the correlation between the dimension of the supervisory board and of the executive one with the performance of the bank, and the second model follows the measuring of the correlation between the structure of the board and the financial performance.

The data necessary for the empiric analysis have been taken from the official websites of the considered banks, and also from the annual reports. The database contains 23 commercial banks from Romania, during 2013–2015. The estimation of the data was achieved in EViews, by means of the techniques specific to the panel data, using the OLS method.

After the empiric testing, the hypotheses considered within the theoretical section were accepted. Within the first econometric model, the size of the board represented by the supervisory board and the executive board determined a positive and significant impact on the performance. One showed that a numerous board contributes to the increase of the financial value of the considered banks because it assures an efficient supervisory.

But this is only valid in the case of the supervisory board, not in the case of the executive board. A great number of managers shall lead to the reduction of the efficiency and performance of the bank, because there are increased difficulties in making decisions. The dimension of the executive board is a critical element of achieving the efficiency of the bank and it improves the financial performance. One creates thus a faster communication between the fewer members and this shall help on the increase of the efficiency of the process of making decisions of the board.

At the same time, there is a significant negative correlation between the dimension of the executive board and the performance of the company. Yermack (1996) stated that the smaller boards are more efficient and more rapid in the decision making process, because it is more difficult for a company to hold the board meetings and for the members of the board to reach a consensus in the case of a greater board. On the other hand, when the dimension of the board is smaller it shall be easier for the CEO of the company to hold a dominant position and thus the power of the CEO grows in the decision making process.

Also, an used control variable (the age of the bank) contributes to the improvement of the obtained results, supporting the idea according to which the older banks can have better results than the new ones (the complexity increases as the age of the bank increases).

The second considered model enforced the results provided by the first model, so that the structure of the board determines a positive effect on the performance by means of the non-resident members (the conflicts of interest are reduced) and the presence of women in the management activity (new ideas and approaches).

The study contributes to the understanding of the correlation between the corporate governance–financial performance by examining both the traditional variables, such as the dimension of the board, the age of the bank, and other organisational attributes, such as the diversity and competence represented by the presence of women.

We believe however that this study has some limitations. First of all, the main limitation is represented by the fact that the data were collected by means of the publicly available sources, such as the annual reports and other databases. If there are problems in relation to the reports and presentations or the accounting professional practices, then this aspect would limit the validity of the findings. Secondly, the entire sample contains only 69 observations, 23 commercial banks analysed during 2013–2015. Thus, the size of the sample is limited because of the availability of the data.

The future researches should take into account the limits of this study, and also other extensions. First of all, one should extend the analysis on a sample made of more countries in the same considered region, on a larger period of time. Second of all, we focused only on a certain set of characteristics regarding the corporative governance. Thus, beside the considered variables, one can also introduce in the analysis other attributes of the governance such as: the frequency of the board meetings, the structure of the shareholding, the remuneration of the managers. Finally, all the results are based on the assumption that there is a strict exogeneity between the independent variables and this hypothesis might not have been checked. Thus the future researches could consider a dynamic background of analysis.

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Part II
Reporting and Validating Social Responsibility Information

Principles and Ethical Values in Public External Audit Activity

Nicu Marcu

"The morality commands, the ethics recommends"
(Andre Comte)

Abstract Ethics in the public external audit is not an academic subject or one for public debate. The article is an analysis of the ethics impact in this field and the potential consequences of breaching ethics in the exercise of function by a public external auditor. To underline public external auditor's general ethical values and principles, this paper will present, in general, the conceptual approaches of the ethics and, in particular, the activity of the external audit.

1 Introduction

The motivation for choosing ethics in the public external audit, on one side, is given by the importance of the subject of ethics in itself, on a social level, and, on the other side, is given by the necessity to explain the impact on the audited institutions of respecting the values and principles in the activity of public external audit. Speaking in general, we can affirm that the compliance with the ethical values and principles at the administrative structures level of which audit units are a part, can be influenced by many factors, including: frequent organizational changes occurring in the public administration, different managerial approaches, the various types of contractual relationships between the structures of the administration and economic agents, service providers and, last but not least, the lack of an integrated approach to interpreting the provisions of legislation.

Although human nature had been for a long time considered the only or the most important factor responsible for unethical behaviour, in the last decades opinions

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among specialists have changed, both due to the findings which resulted from studies on corruption and also because of practical steps taken in order to combat this phenomenon. Therefore, nowadays, unethical behaviour is considered, to the greatest extent, a consequence of the context, of the deficient legislation or of the defective manner in which public institutions are organized. Cultural aspects such as traditions can, in turn, be sources of unethical behaviour (Richter et al. 1990). A correct understanding of the causes which lead to unethical behaviours determines the identification of the most effective methods to combat them. Unethical behaviour and, in particular, the deeds which are known under the generic term of corruption result in an inefficient use, a waste of resources of all kinds that are available to organizations working in the public administration. This affects in a negative way the manner in which these organizations succeed in fulfilling their attributions, the amount of services provided to the population and, evidently, their quality.

The main problem faced in attempting to present the impact of ethics on public external auditing consisted in the lack of extensive documentation sources. With the exception of normative documents, which establish the principles and ethical values in this field, in conjunction with the conflict of interest and incompatibilities legislation, the subject is treated in the codes of deontology drawn up for several professions.

The failures impact to comply with any ethics code cannot be quantified in terms of quantity and regardless of the type and amount of sanctions; the long-term effects of unethical behaviour can be considerable, varying from the personal level to the institutional one. Unethical behaviour, in the work of public external audit, which assumes knowledge of the way in which public financial resources are created and used, can have all the more serious consequences, at the economic level.

2 Background

2.1 Ethics: Conceptual Approaches

Ethics is, above all, a theory that is linked with people's good and evil feelings. At the same time, ethics is a theoretical and philosophical discipline, which, having people's morality as its object, analyses beliefs, convictions and morals of society by reference to what is legal, to widely accepted models in society. Although in literature, morality and ethics are not completely separated, there is a distinction between ethics and morality, which is insisted upon, namely that morality concern human behaviour as seen from the perspective of values (good and evil, fair-unfair) and ethics, refers to the study of everything that falls into this realm of moral values and norms in action. The ethical intent and purpose are what connects ethics to morality and these precede the notion of law, of moral imperative.

Ethics, according to the definition in the dictionary, is "the science dealing with the study of moral principles, their laws of development and their role in social life". Ethics is a universal humanity feature despite the differences regarding the codes of ethics in relation to the society, the institution or organization or even at the individual level. On one side, social ethics is the one which deals with relations between people, the individual being placed in the centre of these relations and, also, with the way in which he relates to those around him, on the other side. Thus, specifically, ethics stipulates the quality and accuracy of such relationships.

On the one hand, ethics has an analytical character, by analysing the causes of human actions and, on the other hand, a regulatory character, by recommending what should be done. It should be mentioned that ethics is not a descriptive science because it does not indicate how something should be done. It has, nevertheless, a practical application hence the frequent use of the term "applied ethics". Applied ethics is, in fact, the analysis from a moral perspective of situations arising in social life and in professional practice, in order to make decisions. Societies have always had and still hold ethical rules that focus, in general, on honesty and respect for other people's rights. Organizations or institutions act in the service of people and the common good of the entity represents the corpus of objectives that its members are trying to achieve. The basic principles underlying organizational ethics are the role of the moral principles and of the individual in the organization and reaching the common objective while observing moral principles. The organization's position in relation to ethical principles is reflected, as a rule, in its very strategy. The objective of having a high level of professional ethics is directly related to the general objective of the organization. It is possible that, sometimes, the demands of professional ethics modify the strategy chosen by the organization. Ethics should be seen as an investment in the medium and long term for any organization. The concept of applied ethics encompasses professional ethics (which also includes management ethics) and business ethics.

Regarding the professional ethics, it requires establishing internal rules in each profession, rules that can be translated into "codes of ethics", "codes of deontology", "best practice guides". According to Dimitrios Buhalis and Eric Laws (2001), ethics is that set of rules which define what is right and wrong in our conduct. At the same time, Johns (1996) specifies in a more concrete manner that ethics can be defined as a systematic reflection on the moral consequences of decisions (potential damage to personnel within the organization and to people outside it). Management ethics is that set of rules obeyed by the leadership of any organization when making decisions or taking action. There are several approaches to management ethics. On one side, there is a utilitarian approach, according to which the individuals conduct can only be determined by the effects of their behaviour. On the other side, there is the deontological approach, according to which the moral value of an action shall be interpreted based on the intention of the person who made the decision. And, last but not least, there is an approach in terms of social justice which protects those underrepresented, but that may stimulate convenience, an approach with multiple nuances that should be taken into account in management.

Business ethics is a form of ethics which concerns the behaviour of economic agents, employees, owners and managers. It is also known as the "economy ethics", which determines the purposes and rules to which the aims of private and public economic activities are subject. Business ethics refers to establishing a balance between the economic and social performance of the company.

2.2 External Audit: Conceptual Approaches

The premise for the success of current economic and financial reforms, as well as for the sustainable development of Romania is the efficient use of public funds. Budgetary funds allocated to public institutions cannot be used unrestrictedly. The public audit has an essential contribution to the necessary discipline and order in managing public funds, to the protection of the financial resources for the promotion of responsibility for the institutions involved in the public funds formation and use and the enhancement and development of the private and public patrimony of the state. The basic objective of the public institutions audit is the formation and use of their funds. The unquestionable reality on the fact that public institutions are managing an impressive amount of public money is a strong argument in support of performing the audit work on the formation and use of public funds for their ongoing verification and monitoring. Public audit represents an independent examination, a professional and responsible opinion, a critical review for support and improvement purposes, and additional credibility to the information on the use of public funds. Public audit is internal and external. Therefore, unlike control, which conducts investigations in terms of accounting and financial irregularities and, also, encounters damages, applies coercive measures, proceeds to recovering damages and acts to establish an orderly situation, the audit merely issues an opinion, signals identified irregularities or damages without necessarily measuring them and makes recommendations to eliminate the situation.

External public audit is an independent activity exercised by the specialized bodies outside the audited institution, to ensure the knowledge of methods in which the financial resources are used and also created, and it includes: financial audits, covering the financial statements examination and reporting and the examination of the control systems underlying these statements; the approval and regularity audit, which examines legal and administrative approvals, the probity and fairness of the administration, the financial and management control systems; the performance audit, which assesses the managerial and operational performance of public programmes, institutions and agencies that use financial resources, personnel or other types of resources in order to achieve their goals. The reality in all countries demonstrates that the most credible certification of financial reports, in the public sector, belongs to the institutions of the state, known generically as Supreme Audit Institutions (SAI) set up under constitutional provisions or functioning and organization laws guaranteeing their independence. Regarding the moment when external audit may be initiated, the competent Romanian authority performs ex-post audit. Although organized differently at the European level, all SAIs have a common quality, that they are united in international (INTOSAI) and regional (EUROSAI) bodies and they perform the external public audit activity in accordance with certain universally accepted standards based on which every SAI develops its own standards. The purpose of international and European audit organizations is to promote and develop the best practices regarding external audit of public funds of institutions. To define the most effective principles and methods that can be applied in the audit of public funds made available to institutions, auditing standards have been developed, which represent the expression of a consensus regarding the best practices in the field, the INTOSAI Auditing Standards and the European Implementing Guidelines for the INTOSAI Auditing Standards respectively. Based on these standards and also taking into consideration the IFAC standards, the Romanian Court of Accounts has created its own standards. Public audit, both external and internal, should not be considered as an aim in itself but as an instrument for the optimization of performance of public institutions through its essential contribution to the identification of deviations and financial imbalances. Recommendations provided by audit can contribute to strengthening the stability of public institutions and fulfilling their objectives, given the risk anticipation and proper management and the efficient use of funds available according to the law.

According to Law no. 217 of 2008, published in the Official Gazette no. 724 of 24 October 2008, "the Romanian Court of Accounts, as the supreme audit institution, performs the control over the formation, administration and use of financial resources of the state and the public sector, through procedures for public external audit provided in its own audit standards drafted in accordance with generally accepted international auditing standards" (Boulescu and Ispir 2009).

2.3 Values and Ethical Principles of the Public External Audit

The obligations and rights of public external auditors and labour relations between them and the Court of Accounts and, also, career-related issues are regulated in the Statute of the public external auditor,[1] a document which was drafted and approved under article 58(k) of Law no. 94/1992 on the organization and functioning of the Court of Accounts, republished. The public external auditor performs a function of public interest, a career, with a special status given by the level and complexity of the tasks as well as the risks, responsibilities, prohibitions and incompatibilities deriving from the provisions of Law no. 94/1992, republished, and the regulations of the Court of Accounts, drawn up according to the law. The public external auditors are entitled to receive ethical counselling, with the support of their superiors or the Ethics Committee. Insofar the obligations of the external public auditors are concerned—in addition to those of a professional nature—those of an ethical nature are provided separately. The professional obligations concern promoting relations based on loyalty, responsibility, collaboration, professional support and mutual respect within the institution in which they function. Moreover, in conducting its activities the auditor must defend the prestige and image of the institution.

There are also a number of prohibitions explicitly mentioned in the statute. Public external auditors may not be members of assimilated organizations or political parties and they are prohibited from spreading defamatory, false,

[1] http://www.curteadeconturi.ro/Regulamente.aspx

unfounded and libellous information, concerning the institution and its activities, either in written or oral form, within the institution or in public, information that can result in prejudice to the prestige and image of the institution. Public external auditors may not make publicly baseless allegations, complaints, calumnies and the like regarding the managers, colleagues or subordinates. An important aspect relates to the interdiction of public external auditors to publicly express opinion on the actions in progress and/or performed. Moreover, they are forbidden to provide consultancy for the audited institutions in order to contest the documents issued, or to contribute, together with the audited institutions, to their drafting. Public external auditors are prohibited from using the functions they perform for the purpose of propaganda, broadcasting or commercial advertising of any kind or for the purpose of obtaining funds, effects or other unmet favours for others or for themselves. During the entire period of verifying the institutions, from the beginning until the completion, it is forbidden to benefit of their official position. External public auditors cannot assure consolatory services, like accounting and/or make possible to institutions that are the subject of the verification, directly or through other persons, authorized individuals or private companies, materials or documentation, in written format or on electronic support, for the implementation of legal provisions in order to obtain coin, effects or other favours for themselves or other intermediaries. Public external auditors are prohibited from recommending any physical or legal person for the conclusion of contracts, including legal assistance, consultancy or civil contracts with verified institutions both before and during or after carrying out verifications of these institutions. No advantages, from the audited institutions, be they material or of any other nature, can be accepted or requested, indirectly or directly, for others or themselves. It is also forbidden, for the individual benefit, the use of information obtained in the time of the verification period. Furthermore, the identity of the individual and/or the content of notifications describing irregularities or illegal situations cannot be revealed to the directorate of the verified institution by the public external auditor. The confidentiality obligation regarding data and information which public external auditors become aware of in exercising their attributions remain valid after termination of their individual labour contract for 1 year. No public external auditor can exercise trade activities, directly or through intermediaries, and they cannot be part of the leadership of commercial or civil societies. Any form of coercion or persecution against the people of the verified institution is banned to the public external auditors.

In order to inspect financial records correctly, in conformity to the law, compliance with fundamental ethical principles is of the essence. Failure to obey this set of principles which requires independence, integrity, professional competence, confidentiality, professional conduct and objectivity, could have a negative, difficult to quantify impact on the audited entity, with long-term implications. It is essential to ensure the public external auditor autonomy, from the verified public entity and from any kind of influence and groups of interest, from the inside or outside of the institution. In order for this independence to not be affected and influenced, it must be ensured that the external public auditor was not implicated in any kind of agreement with the institution that is under verification pending the last 24 months, including in service relationship or employment. Additionally, in relation to the verified institution, in the situation when no family members, spouse, husband, in-law or relative, up to the fourth degree, are working there, an external public auditor can be autonomous. Establishing an atmosphere of familiarity with the personnel of the verified entity during the course of the control/audit would be liable to influence the objectivity of professional judgment required for verifications.

Independence and objectivity of external public auditors can be influenced and affected by the conflict of interests, which may be real, apparent or potential. The entity subject to verification would be prejudiced in the long term if the public external auditor was in a true conflict of interest or in a dispute between the public duties, namely the public interest, and his personal interests, as a private person, respectively. There are a series of situations of real conflicts of interest, without constituting an exhaustive list. Such a situation would be the use for personal need or in the advantage of these family members: companion, wife, or first degree relatives, during the 24 months preceding the verification of an entity, of the movable or immovable goods in its patrimony. Is contrary to norms of ethic, 24 months before the beginning of the audit, the provision of financial-accounting services and the drafting of agreements, including juridical assistance, consulting or civil agreements, by the previously mentioned family members of the public external auditors with the verified institution. Moreover, public external auditors should not owe anything to the employees of the verified institution, either materially or otherwise, in order to avoid the situation in which the public external auditors obtain favours or have advantages during the audit. Therefore it is forbidden to receive gifts from the institutions subject to verification in the form of goods or services, or to honour invitations to shows, seminars, symposia and events at home or abroad. Regarding the participation in various events organized by the verified entity, it refers to events other than those which have a public, official character.

Integrity is the principle in accordance to which public external auditors shall comply with the principles of independence and objectivity, maintain irreproachable professional conduct standards, make decisions taking into account the public interest and demonstrate absolute honesty in performing their activity and in using the resources of the institution where they exercise their function. Specifically, during a verification mission, public external auditors must fully comply with current legislation, regulations, standards and procedures for running of verification missions, and adopted decisions must be consistent with the public interest. Honesty and fairness are the guarantee of respect for professionalism in the mission they perform. Refusals of material or other type of benefits from interest groups inside or outside the verified entity are proof of incorruptibility.

Professional competence is one important part of the public external auditor's ethical values and principles—it provides the audited institution the confidence in the public external auditors that they are able, based on their professional judgment, to take the correct decision in a situation or concerning an issue encountered in their work. Safeguarding the provisions of the legislation governing the organization and functioning of the verified institution, the practical and theoretical training for the audit/control activities of the public external auditors and the grounding, based on clear evidence, of the recommendations, findings, conclusions and the actions recommended in the draft of the reports, is directly beneficial to the verified institution.

Maintaining professional scepticism during the verification regarding the accuracy and reality of documents, data and information submitted by the verified institutions is likely to support it through the critical and objective evaluation of the validity of information in the obtained audit evidences.

Confidentiality is the principle which states that the external public auditors cannot unveil the data and information which was provided to them by the verified institutions and also those gained from other sources during the audit/control assignments.

Professional behaviour of the public external auditors has in view the manner in which they act in carrying out their attributions, so as to prevent any situation that might undermine their activity and function from occurring, as well as their institution's prestige. The meticulousness in examining the issues under verification and in obtaining information and data, so that the recommendations, conclusions, findings and proposed measures be real, clear and complete and the consistency and perseverance in obtaining and requesting documents, information and data necessary to determine the findings are the main issues about the professional conduct. In order to substantiate the conclusions on all the evidences and arguments submitted in the report, it is important for the verified institutions that the public external auditor to offer due time and consideration to discussions with the staff designated by the institution. Furthermore, the verified institution needs a reasonable period of time to offer required documents and information. A decent outfit, the polite behaviour, the respect for the private life of people, with whom they come into contact, providing equal treatment in their work at the verified entity with no discrimination in terms of gender, nationality, age, race, ethnicity, religion, origin, political views or disabilities are matters which come to complete the observance of principles and ethical values.

Probably, the main expectation of the audited institutions is related to the external auditor objectivity through impartiality and fairness, rationale, based on reasoning, evidence and calculations, of the fact that the conclusions and the recommendations included in the draft of the reports regarding the identified deviations or irregularities relate to the activity of the verified institutions.

A declaration of independence provides the tools to monitor and control the implementation of the provisions of the Code of Ethics, with an emphasis on the principles of independence, integrity, objectivity and impartiality in fulfilling their tasks. For every action in which the public external auditor is nominated, such as research activities, financial audit, performance audit, compliance/control audit, verification of complaints and verification of the implementation of recommendations set out in decisions, a declaration of independence is presented.

Failure to comply with the provisions of the Code of Ethics is considered to be misbehaviour and may even represent the reason for disciplinary termination of individual labour agreement. The advantage of drafting a code of ethics for external public auditors is undeniable. It phrases, above all, the mature experience of a profession, trying to balance the collective and the personal interests. The code is a useful guiding instrument for anyone who is a beginner in this profession. It can consist the baseline for disciplinary measures against wrong behaviour, being a way of complying with the rules imposed by profession of those who diverge from them. The code aids the effective advancement of problems of discrimination, ethical dilemmas in general and it is a means of encouraging ethical practices, while also enhancing trust and cooperation within the team.

Even if an external auditor were fair or honest and had a high morality, the example set by his coordinators could determine him to overlook unethical practices of those who are part of the audited institutions, or even to adopt such practices. The leaders of the institution have the power to dictate the policy of an organization and to set the moral tone. They have the great responsibility of using this power judiciously. They can and should serve as models of ethical behaviour for the entire organization, not only through their daily behaviour, which should reflect respect for the high ethical principles, but also by communicating similar expectations from employees across the organization and encouraging positive results. The leaders of the institutions are in a position of influence over subordinates and, therefore, by acting as positive ethical models set a tone of morality in their area of responsibility. This can be achieved both in a formal manner, by communicating directly the expectations in terms of ethics from subordinates but also in a positive and informal manner, through the power of personal example.

Observance of the principles and ethical values by external public auditors has a direct impact on the verified entity through the recommendations made, which are based on findings.

Depending on the conclusions a public external auditor may have, the implementation of recommendations which are contrary to legal provisions in the field of financial, accounting and taxation may be suspended.

Furthermore, when the verified entity is found to use budget or special funds inefficiently or illegally, funds may be blocked. The measures established by an external auditor can go up to requesting suspension from office, under the law, of persons accused of having committed acts causing serious prejudice or serious financial offences, identified as an outcome of verifications or audits, until the court pronounces final decision in trials in which they are judged. Furthermore, not presenting to the public external auditor on time the accounts to be verified is considered malpractice, and the person responsible for the delay can be grounded with a civil fine equal to the earnings of the person for 1 up to 3 months.

3 Solutions and Recommendations

In order to achieve improvement in the behaviour of public external auditors in terms of ethical principles and standards , it is recommended to strengthen the professional network for auditors with the scope of having the same approach in auditing, to share “good practices” and “bad practices”, to develop a “library” for test cases. It is also suggested to organize, within the network, a working group on ethics. The role of the experts is to increase the visibility and raise awareness about the importance of ethics principle in day to day work, to improve the collaboration between public institutions and reduce duplication of efforts as well as to create behavioural change through governance-strengthening and training efforts.

The external auditors, members of the working group on ethic, will generate training materials that integrate both traditional lecture and transfer of best practices and skill-building, adding in the pragmatic learning, case analysis, role play, and peer-to-peer exchange.

4 Conclusion

Failure to comply with ethical principles and values in the public external audit activity has negative effects for the function exercise in itself, for the image and authority of the institution that the auditor represents, undermining the confidence of the audited entity in the verification activity. With reference to the measures decided upon at the completion of an audit mission, establishing them in violation of the above-mentioned principles can impact economic development, undermining the rule of law and society's confidence in the administrative system.

Even if, in the short term, there is the possibility of quantifying prejudice at the end of a verification mission, in case an auditor does not comply with ethical principles and standards, the long-term consequences of such behaviour are difficult to estimate. Propagating an ethical culture to prevent such situations is the key to the success on any type of approach of this kind. The ethical culture within the organization in which the public external auditors exercise their function represents a form of adequacy to a professional universe increasingly complex and demanding, in which human acts of authority are more and more "extended" through the language of information technology and automated behaviours. Acknowledgement of moral behaviour is the only way to maintain professional ethical relationships within the authority and among them.

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Integrated Reporting in Small and Medium Enterprises: Issues and Perspectives from Italy

Mara Del Baldo

Abstract The work discusses the most critical aspects faced by SMEs in releasing an integrated report and adapting the Integrated Reporting (IR) principles to their needs and features. After presenting the literature framework, the paper analyses a case-study relative to a medium-sized company belonging to the Italian Network Business Reporting working group, which has been involved in the drafting process of the Guidance for IR in SMEs. Results emphasize the need for simplifying concepts such us materiality, integrated thinking and connectivity and understanding the benefits deriving from the IR adoption. The work has both theoretical and practical implications, since it contributes to nourish a research field which has not been adequately investigated and support the diffusion of IR among SMEs and practitioners, by emphasizing the SMEs' possible approach toward "the IR journey".

1 Introduction

SMEs constitute the backbone of the world economy. Despite their generally recognized relevance and role in the socio-economic context (Smallbone and Wyer 2000; Dobbs and Hamilton 2007; Amorós et al. 2013) until a few years ago, SMEs were not considered as potential users of integrated reporting (IR).

IR represents a new emerging model of corporate reporting, based on the integration of financial and non-financial information that facilitates the connection between the management of several types of resources—financial, physical and intangible assets, such as social and intellectual capital and environmental, social and governance, ESG parameters, key performance and risk indicators of quantitative and qualitative nature, the business strategy and performance (De Villiers et al. 2014; Stubbs and Higgins 2014; Eccles and Serafeim 2011; Eccles and Krzus 2010, 2015; Higgins et al. 2014; Gray et al. 2014; Main and Hespenheide 2012; Rowbottom and Locke 2013; Jensen

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and Berg 2012; Adams and Simnett 2011; Cheng et al. 2014). IR has gained considerable prominence since the formation in 2010 of the International Integrated Reporting Committee—IIRC (2011, 2013).

Only recently, the relevance of IR for SMEs—in particular for allowing them a better access to finance—has been internationally acknowledged by the Chartered Institute of Management Accountants (CIMA) within the SME & Entrepreneurship Taskforce of B20/G20 (CIMA 2015). Policymakers expressed an interest in supporting the diffusion of IR within SMEs. Notably, the World SMEs Forum (WSF) has been set up to concretise recommendations and assist SMEs to overcome hurdles in the process of IR. Moreover, both the practical handbook drawn up in January 2013 by the International Federation of Accountants (*IFAC International Good Practice Guidance Principles for Effective Business Reporting Process*) (IFAC 2015a, b) and a specific GRI—Global Reporting Initiative (2014) document (*GRI, Ready for the report? Introduction to sustainability reporting for SMEs*) mention SMEs and provide them concrete cases of sustainability reporting implementation. In addition, in November 2015, the GRI and the IFAC SMP Committee started the implementation guidance on *Integrated Reporting for Small and Medium Entities* aimed at disseminating the knowledge of IR in the context of SMEs, where this practice is still not significantly widespread.

The IIRC has become the promoter of the SMEs' need to develop a more holistic and integrated approach to accountability which emphasises the way value is created. Coherently, Within the Example Database of the IIRC entitled "IR Reporters"; a specific section has been included to incorporate the integrated reports of best practices released by SMEs. Furthermore, within the IIRC/NIBR—Italian Network Business Reporting which officially represents the World Intellectual Capital Initiative (WICI in Italy),[1] a specific working group has been created in 2013 (*IR and SMEs Working Group of NIBR*) to develop and diffuse at the national and international level specific guidelines for the implementation of IR in SMEs (NIBR 2016 forthcoming).

According to this premise, the object of the work is to provide insights on the most critical aspects faced by SMEs in releasing the integrated report and adapting the IR principles to their needs and features. Notably, these are relative to the "usability" of the IIIR Framework (IIRC 2013) for to SMEs and the need to simplify, shorten and operationalize it in order to be user-friendly for SMEs. In this respect, the analysis will be focused on the principles of connectivity, materiality and integrated thinking.

In order to reply to the aforementioned questions, we used a methodology based on both a deductive and inductive approach. The first one is founded on a literature review and on a brief survey of the technical frameworks relative to SMEs'

[1]The World Intellectual Capital Initiative is an International Global Network aimed to improve business reporting, consisting of national chapters (WICI Japan, WICI USA, WICI France, WICI Italy, WICI Germany) and regional chapters (WICI Europe). The Italian Network Business Reporting (NIBR)—www.nibr.it—started up in December 2010 and represents the World Intellectual Capital Initiative (WICI) in Italy. www.wici-global.com

reporting. The second one is empirically constructed and follows the action research approach (Benbasat et al. 1987; Bryman 2008; Contrafatto 2011). It involves the analysis of a single case-study (Yin 2009; Eisenhardt and Graebner 2007; Patton 2002; James 2013b) relative to an Italian company—Costa Edutainment Spa—belonging to the NIBR working group which has been involved in the pivotal drafting process of the Guidance for IR in SMEs and has released its first and pioneering integrated report in 2014.

Empirical findings emphasize the need to adapt and simplify the main IR concepts (such us the materiality, integrated thinking and connectivity), to fully understand the benefits deriving from the IR process and the adoption of an integrated report. Results also point out the importance of clearly defining the concept of integrated reporting and its relationship with sustainability reporting.

Accordingly, the work contributes to enrich the debate on the benefits and critical issues relative to the diffusion of IR among SMEs, in a research field which has not been adequately investigated. Moreover, it helps in supporting the diffusion of the IR framework among SMEs, practitioners and consultants by providing reflections aimed to ameliorate the IR Guidelines for IR in SMEs and sensitize entrepreneurs on the possible step-by-step approach toward “the IR journey”.

The remainder of the chapter is structured as follows. After introducing the theoretical background, a description of the methodological approach is provided, followed by the presentation of the case-study relative to Costa Edutainment Spa, one of the Italian partner of the working group involved in the preparation of the IR Guidance for SMEs. A further section presents the discussion, while a final section sums up the main concluding reflections arisen from the analysis and the implications.

2 Background

IR is mainly targeted at large, publicly listed companies, excluding small to medium-sized organisations and those in the government and non-government sectors (Burritt 2012). Until now only few studies have focused on how the early adopters of integrated reporting are managing and implementing this new approach (James 2013b). Therefore, a call for more research at the firm level is required (Kolk 2010; Havlováa 2015) in order to engage with actors responsible for reporting and gain more understanding of the issues associated with the implementation of reporting innovations (Parker 2005; Eccles and Krzus 2015).

In this regard Stubbs and Higgins (2014) investigated—through an empirical, qualitative-based approach addressed to 23 people across 15 Australian organisations—the internal mechanisms employed by early adopters of integrated reporting and explored whether integrated reporting was stimulating innovative disclosure mechanisms. The study revealed that IR was still in an embryonic stage. The companies that have adopted integrated reporting are grappling with how best to implement it within their organisations. Moreover, drawing insights from the

Lauglhlin's 1991 model of organizational change—they found that while the ones that were producing some form of integrated report were changing their processes and structures (or at least talking about it, their adoption of IR has not necessarily stimulated new innovations in disclosure mechanisms. Notably, change did not uncover radical, transformative change to reporting processes, but rather incremental changes to processes and structures that previously supported sustainability reporting.

Conversely, Adams and Frost (2008) and Adams and McNicholas (2007) found that sustainability reporting can be a catalyst for change, while IR is used as an explicit tool to drive change, since in setting the internally and externally expectations to produce an integrated report, the business strategy is revisited in light of negotiating the integrated "story" (Frostenson et al. 2012).

Taking into consideration the current issues and insights deriving from the rapidly emerging field of IR De Villiers et al. (2014) propose a comprehensive agenda for future accounting and accountability research in this area. Notably, they show that the development of IR leads to both theoretical and empirical challenges because of the different ways in which IR is understood and enacted within organizations and institutions (ICGN 2015). Pointing out several questions that are yet to be answered, they highlight many areas where further academic research is needed to guide developments in policy and practice, such as: the concept of materiality, the "reconciliation" between sustainability reporting standard and IR, the need to incorporate compliance methodologies into performance and assurance frameworks (KPMG 2013) and for regulatory bodies to change their auditing standards.

However, among the fascinating area for research that have been suggested, no explicit mention has been made to the need to inquire the opportunities and difficulties faced by SMEs with regard to IR and provide specific adjustments for facilitating the IR implementation in this context (De Villiers et al. 2014).

This gap is firstly attributable to the fact that only in the last years SMEs have started to approach the IR. With this regard, recently a best practice relative to an Italian SME (Dellas Spa) that implemented the IR process and adopted the integrated report has been presented and diffused, devoting it a specific chapter in Eccles and Krzus (2015) latest book. It should be mentioned that this company (such as the case of Costa Edutainment presented in the following sections), belongs to the pilot Italian companies involved in the NIBR working group.

Moreover, the gap can be due to the absence of guidelines "able to speak to" SMEs, given their inhomogeneity, and easily adoptable by their consultants (in particular by chartered accountants) who still encounter difficulties in operationalizing the IR principles. SMEs' specificities are mainly related to the different governance and organizational structure, the limited managerial and financial resources and the logic of the strategic management. The latter is usually incremental-based and process-driven; it does not follow an object-driven logic, nor is it formalized and it mirrors the entrepreneurial different culture of management control and reporting (Marchini 2005; Gnan et al. 2015). These features drive the hypothesis that in the context of SMEs the IR approach needs to be consistent with the entrepreneur's attitudes, competences and purposes and the company's local operating environment.

Recently, some pioneering contributions have provided first insights on the opportunities that arise for small and mid-sized entities considering an IR approach (James 2013a, b; Eccles and Krzus 2015). However, less attention has been devoted to the factors that hinder or render the IR implementation difficult (Del Baldo 2015).

Firstly, IR may provide significant benefits for SMEs because it enhances a company's economic success in the long-run (James 2013a). IR principles are applicable regardless of size and SMEs are likely to have a greater degree of integrated thinking. The application of the principle of connectivity can also be easier than in large companies because it is facilitated by a flexible decision-making process, the lower organizational complexity and the prevalence of direct, informal and personal (internal and external) relationships (Del Baldo 2015). Accordingly, IR cannot be considered a new chance for large and public entities only, but also relevant for SMEs that are a growth engine of economies all over the world (James 2013a).

Secondly, although IR is primarily addressed to investors, it is of benefit to other stakeholders (i.e. clients, banks, employees and the local community) who are significantly affected by the company's activities and whose actions positively influence SME's success. Indeed, through IR SMEs enhance risk management and performance, improve the strategic process management understanding how strategy is affected by environmental, social, financial and economic issues, and explore innovative opportunities in their products, services, processes and markets. Furthermore, they can enhance brand value and reputation among stakeholders and experience better employees and customer loyalty, gain trust from funders, lower the cost of capital and become more competitive in the marketplace (James 2013b).

Finally, with regards to the leading motivations that orient SMEs' decision "to embark on the IR journey" a recent study based on pioneers that adopted the IR (after having initially implemented a social balance or/and a sustainability report) reveals that SMEs need to overcome the limits of financial reporting in fully explain and communicate both their values and value and demonstrate the links among the strategy, the performances and the business objectives (Eccles and Krzus 2015: 87–112).

These considerations are partly confirmed by the empirical analysis relative to the experiences of Costa Edutainment Spa—which released its first integrated report in 2014—presented and discussed in the following sections, after the description of the methodological approach.

3 Methodology

The empirical study was aimed to inquire the most critical aspects faced by SMEs in implementing the IR and adapting the IIRC Framework to their features, and the changes made to operationalise the principles of materiality, connectivity and integrated thinking.

The empirical study has been developed using a qualitative approach and a case-study method (Yin 2009; Eisenhardt and Graebner 2007; Patton 2002) relative to Costa Edutainment Spa. This Italian company has been selected since it represents the smallest one included among the three pilot companies that started the implementation of the IR within the NIRB working group.

Within the IR research field attention has been addressed on the need to investigate trough in-depth qualitative analysis (adopting semi-structured interviews within organisations in varying stages of implementing IR) the internal mechanisms employed by early adopters of IR (Stubbs and Higgins 2014; Havlováa 2015; Van Bommel 2014).

The study is thus explorative in nature and addresses a significant case (Yin 2009; Naumes and Naumes 2006) following the action research approach (Benbasat et al. 1987; Sankaran and Tay 2003) and a participant observation. These methodologies of inquire are considered particularly useful to improve knowledge in the field of social and environmental research (Adams 2002; Adams and McNicholas 2007; Contrafatto 2011; Spence and Gray 2008). In order to examine the phenomenon in the context in which it occurs he adopts an interpretive mode of inquiry based on qualitative data and engaged directly with "insiders" (Brown and Dillard 2014). Notably, the action researcher does not stand as an independent observer and becomes a participant being part of the NIBR working group. The analytical approach based on narrative analysis and on qualitative data collection draws on an interpretivist approach (Crane 1999; Currie et al. 2009; Fraser 2004) which is considered appropriate for studying evolving organizational and reporting practices (Higgins et al. 2014; Stubbs and Higgins 2014) and was used to understand: 1) the conditions under which Costa Edutainment's engagement with IR was enacted and evolved during the years (the "journey" of integrated reporting within Costa Spa); 2) the drivers and challenges emerged this process and 3) the difficulties encountered in producing the integrated report and adopting the IR framework and the ways used to face them; 4) the benefits and the future perspectives.

The analysis was developed across a multi-year period (beginning in 2013 and lasting until 2016, July) and based on information acquired through different methods and sources to grasp data. Primary sources were represented by three in-depth, semi-structured interviews, respectively addressed to the Costa Edutainment CSR Officer, the President and the external consultants. Interviews were preceded by an e-mail questionnaire; two were face-to-face, and one was performed by telephone; each interview lasted about 1 hour. In addition, several informal conversations were performed with the members belonging to the NIBR working group, such as entrepreneurs, managers, IIRC representatives, and many different stakeholders (consultant's agencies, banks, business associations). Direct observation has been performed during the technical round tables, multi-stakeholders forums, workshops, NIBR general meetings (in total 10 meetings, each lasting half a day). Secondary sources of information allowed the analysis of documentary sources (IIRC and NIBR documents and drafts, Costa Edutainment corporate reports, and other relevant information and releases posted on the company web-site, the NIBR the IIRC internet sites). All interviews were recorded, transcribed and validated; a content analysis of the interviews was undertaken using qualitative coding techniques.

After introducing the company, the following sections describe and discuss the main findings drawn from the analysis.

4 The Case-Study: Costa Edutainment Spa

4.1 Company Profile

Costa Edutainment Spa is the Italian leader in the management of public and private structures dedicated to recreational, cultural, educational activities, study and scientific research. It manages 12 main structures at national and international level, with a strong local involvement and economic impact in its operative areas. By 31st October 2014 it had 106 employees and a turnover of over 25 million euros. In 2015 it was consolidated by the Costa Group and reached an annual turnover of around 52 million euros and had almost 500 employees and 2.6 million visitors.[2]

Edutainment is a fusion of education and entertainment which sums up the company's mission: to respond to the growing demand in the qualitative use of free time by blending culture, education, events, emotion and fun into a meaningful experience. During its growth, between 1997 to the present, one of its key points has been the awareness of the value of corporate and social responsibility and sustainability.

4.2 Costa's Approach to IR

The initial idea which leads Costa Edutainment to consider publishing an integrated report arose from the need to systematize different corporate actions and results, which had never previously been accounted for consistently, in order to manage, interpret and communicate the overall economic, social and environmental value created for stakeholders in the short, medium and long-term.

[2] www.costaedutainment.it

"*The identity of the company which operates primarily in the scientific and cultural sector followed by the tourism sector has developed since the beginning on the basis of values of responsibility towards people, the environment and society. Consequently, the opportunity to take part as an SME in the experimentation of the model within the NIBR working group gave rise to the project in the middle of 2013 which resulted in the first Integrated Report in 2014. Today we have become a great enterprise—due to the merger with Costa Parchi—and have produced the 2015 Report for the entire Costa Edutainment Group*" (S. Bondanza, CSR Officer and external relations manager, April, 2016).

The company introduced the integrated report in 2014 in accordance with the IIRC standard with the support of an external consultant agency and experimented it as an innovative process which is still under development accordingly to new industrial 2015–2020 plan. In such a context, the 2014 integrated report represents a starting point of the evolving path aimed to enhance disclosure and the sharing of strategic issues with stakeholders. The "journey" consists of three fundamental steps: "preparing the journey", "making the journey" and "talking about the journey" which have lead the company to reflect on the business model, create a mixed working group (made up of owners, CRS heads and external consultants) and prepare an action plan (Fig. 1).

Connectivity has been referred to the four dimensions of the Costa's business model: input capital/resources; organizational processes; stakeholders and output capital (results). To clearly express the fundamental strategic direction of the company oriented to maximizes the creation of multidimensional value, a strategic map has been outlined inspired by the balanced scorecard model (Kaplan and Norton 1996), integrated with the stakeholder oriented approach and the six capitals model proposed by the IIRC. To define and monitor the action plan, a specific web technology has been adopted, accessible through the browser or appropriate profiling and user licences. The strategic map (Table 1) is made up of four interconnected dimensions, which articulate the principle of integrated thinking applied to companies: 1) input; 2) objectives and organizational processes; 3) the stakeholders and 4) the performance.

The map presents a medium to long-term vision of corporate strategy (2014–2016) and the annual and mid-term objectives. The company's models of value creation (Fig. 2) highlights for each of the aforementioned areas—briefly analyzed in the section below—the optimal development of those processes (integrated reporting, corporate citizenship, the supply-chain, energy efficiency and so on) through which the company transforms resources (divided into six input capitals) into value (output capitals).

Governance and transparency: Costa is aware that the consolidation of a clear and shared positioning as an authentic responsible company requires a strengthening of the disclosure processes toward the main interlocutors through a progressive evolution of the company culture and the growth of reliable business reporting capable of stimulating information sharing and collaboration.

Relations with the key stakeholders: the valuing of relationships with clients, collaborators and local institutions is an integral part of the history of Costa family

Fig. 1 Costa Edutainment's road map. Source: NIBR (2015)

Table 1 The strategic map of Costa Edutainment

Dimensions	Content
Input	The resources available to the company to carry out strategic objectives (financial, productive, organizational, human, relational, social and natural resources).
Objectives/organizational processes	Improvement goals related to the processes have been grouped together into four areas of value creation: governance and transparency, relations with key stakeholders, economic and financial sustainability and environmental protection.
Stakeholders	The main users of corporate objectives are not just clients, as in a traditional perspective, but an extended series of interlocutors.
Performance	Corporate results referring to capital typologies.

Source: Costa Edutainment Integrated report (2014: 37)

business. The company is aware that the level of current relationships with key stakeholders is not yet homogenous and could be improved. According to this, the future vision aims to adopt operative instruments to ameliorate the organizational climate, develop the individual talent and strengthen team work, innovate sensitivity within suppliers in order to restructure and co-plan demand and consolidate relations for bringing value to the company and territory.

Economic and financial sustainability: for the future (2015–2017) Costa is committed to assess the economic and financial feasibility of the industrial plan for the maximization of the economic value through the optimization of existing processes (i.e. The renegotiation of relations with banks and the redefinition of outsourcing contracts) and the monitoring of rating models proposed by ethical finance attentive to valuing commitment and social and environmental performance.

Environmental Protection: the company is oriented to minimize the structures' product impact on the environment, promote bioethical standards for sheltered animals, awareness-raising and environmental education for the general public.

A summary of the main KPIs and results on Costa's capitals is below presented (Table 2)

In the following the main aspects relative to the IR implementation and will be presented.

5 Discussion

This section discusses the challenges in the application and "operationalization" of the principles of connectivity, materiality and integrated thinking in Costa Edutainment, as well as the main criticalities, results and future goals.

A first core challenge in the initial phase of IR was attributable to the weakness of the "culture of non-financial information", such as transparency and the clarity about owner information, data collection and comparability. Such a situation is

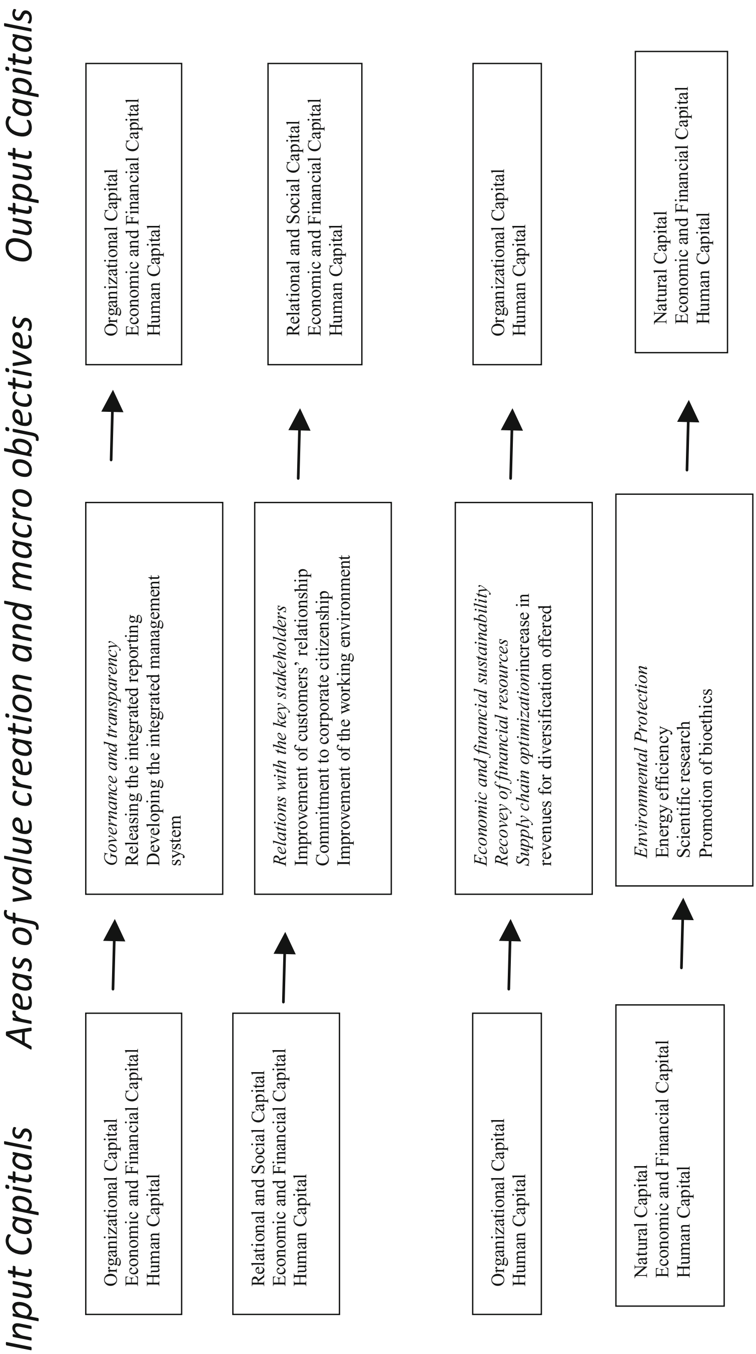

Fig. 2 The model of value creations and connections with capitals. Source: Costa Edutainment Integrated report (2014: 38)

Table 2 KPIs and results on the capitals

Capitals	KPIs
Financial capital	The savings rate from service optimization *outsourcing* • Turnover • Profits • *Cash flow* • Average turnover per employee • Average cost per employee • Distribution of added value
Productive capital	• Completion of cetacean stand • New *exhibits* • Restoration of National Antarctic Museum
Organizational capital	• Web platform for integrated reporting • Reorganization of aquarium sector • Establishment 2014–2018 Industrial Plan • Corporate management system
Human capital	Number and type of tables for collaborative processes: • Total hours of training • Average hours of training • Percentage of employees that have done training courses • Turnover • Total number of employees • Average age • Schooling • Number of women • Number of work accidents • Seniority • Application of second level contract
Relational/social capital	Euro number of projects sustained for cultural and social purposes • Activity "Aquarium friends" • Customer Satisfaction Index• Feedback from social network • Complaints management, press office • Educational efficacy • Results of school project • Presence in national and foreign trade fairs • Percentage of visitors to the structures
Natural capital	• Number and type of scientific research project • Energy consumption (water, electricity and gas) • Biodiversity • Bioethics

Source: Integrated Report Costa Edutainment (2014: 40)

typical of the majority of SMEs that generally have a weak culture of accountability, management and performance control systems (Silvi and Bartolini 2011) and aligns with previous studies which stress the influence of structural weaknesses tied to the specificities of SMEs (Frìas-Aceituno et al. 2013, 2014). Nevertheless, this evidence appears in contrast with Vaz et al.'s findings (2016) which demonstrate that the size is not significant. However, such a difficulty has been overcome in Costa thanks to the strong and authentic commitment of the board (Adams and McNicholas 2007; Cormier et al. 2004; Maharaj and Herremans 2008). Currently a new coordination manager (CSR Manager) has been created with the task of dealing critical points concerning both the operative and relational profiles.

"*A strange phenomenon has occurred which has slowed down the publication of the Report: once the first drafts were out there was a belated "rush to be there" on the part of various managers who seized the potential of the product having only seeing it*".

Another challenge was the merge by incorporation in Costa Parchi (end of 2015), with which Costa Edutainment has become part of a large group.

"*This extension of accountability has undoubtedly increased the complexity of the project and raised the need for an ad hoc commitment to harmonize the procedure and useful instruments for data collection related for example to personnel, customer satisfaction, commitment to collectivity*".

A further challenge encountered in the implementing the principles of integrated thinking and connectivity was the difficulty to identify adequate and efficient supports in the information system to the processes of identifying, monitoring and accounting for value drivers. Moreover, Costa faced difficulties in clearly define the areas where the company can generate more value and where it risks greater loss of value. To develop this analysis it was essential to engage internal and external stakeholders, involving them in identifying relevant objectives and significant impact and building a materiality matrix through graphic synthesis.

"*The idea that 'if you don't think integrated you can't report integrated' is something we completely agree with: we believe that IT has been the result of IR, but it is a remarkably facilitating element the year after*".

Secondly, with reference to the implementation of the materiality principle and the necessary adjustments of the IR framework, Costa has adopted a gradual process, developing the IR over time. The road map, planned in 3 years, traced the main stages because it was not possible, in terms of resources and time, to introduce an integrated decision making process and to align the materiality process with the business strategy in a single moment (Stubbs and Higgins 2014). By involving first-level managers the IR process contributed to launching an initial reflection on the identification of stakeholders and highlighting 14 macro-categories of corporate interlocutor, of which 3 are key interlocutors: 1) personnel (employees, collaborators and external personnel that carry out services within the structures); 2) clients (especially schools to which companies have always dedicated specific didactic projects, often co-planned with the teachers); and 3) local public authorities.

The process will continue in the future with the consolidation of stakeholder mapping inspired by the AA 1000 international standard and the definition of the materiality matrix.

"*To reach the formulation of a materiality matrix, we started the first year with stakeholder mapping (2014), then moved on to the definition of relevant issues according to the internal managerial perspective (2015). The 2016 programme envisages stakeholder engagement aimed at forming a Matrix*".

During the first 2 years the content analysis was carried out and included in the report. Such a process was the outcome of an internal and external collaborative process: the working group involved an internal project manager (CSR Manager and working group formed of first-level managers such as e CFOs, MKTGs, HRs, internal Staff Audit, Scientific Director) and an external consultant tied to the NIBR (Mixura Srl) to ensure growth alongside the community. In this regard, it emerges both the importance of setting up a cross-functional team (Adams and McNicholas 2007; Stubbs and Higgins 2014) extended to external partners and the adoption of specific software solutions. In terms of time the process took 14 months: the first year for the establishment of information technology tools and reporting process, and 2 months for preparing the report. Incremental change was observed in the broadening of people involved in the process through cross-functional teams in order to move away from siloed thinking and structures. In this regards, the IR process can be interpreted as a combination of a "push" strategy, used to explicitly

Table 3 Easiness (yes) and difficulty (no) in applying IR fundamental principles

Guiding principles	Costa (medium-small sized company)[a]
Completeness and reliability	No/yes
	Yes
Consistency	Yes
Clearness and comparability	Yes
Strategic focus and future orientation	Yes
Connectivity of information	No
Stakeholders relationships	Yes
Materiality	No/yes
Concisiveness	Yes

Source: Our elaboration
[a]European recommendation 2003/361/CE on micro, small and medium-sized enterprises, May 6th, 2003

drive change in the organisation and a "pull" logic (Stubbs and Higgins 2014) since it represent the result of an a business characterized by a "genetic" orientation toward economic, social, environmental and ethical performance.

Thirdly, among the perceived weaknesses and strengths in Costa's journey toward the integrated report, the following table (Table 3) summarizes the main criticalities faced in implementing the IR Framework.

Being principles-based, the <IR> framework can be implemented in all types and differently sized businesses. The core question is how effectively and readily it can be adopt. In this respect, the most critical points relate to the following aspects: 1) SMEs have few resources to be devoted to the understanding and implementation of <IR>; 2)-Connectivity can be a difficult concept to understand and adopt, as well as the materiality determination process, which became complex in case of lack of adequate information systems that limit the quantity and quality of available data. Accordingly, in order to implement the IR the following relevant questions were raised by Costa: 1) setting up an efficient work group involving also external practitioners; 2) integrating the analysis of materiality envisaged by GRI (2013, 2014) guidelines with the application of the connectivity principle and integrated thinking and 3) devoting attention to the governance of the family-run businesses and the definition of the perimeter of the report.

Costa questioned the "why" for issuing the integrated report through an analysis of the internal/external benefits and obstacles perceived by the company working group and the members of the NIBR working group (included the other pilot SMEs) during the NIBR drafting process of the IR Guidelines for SMEs.

The internal benefits include an assessment of intangibles (Lev 2001, 2004; Goodridge et al. 2014; WICI 2014; Zambon and Guenther 2011) that would otherwise remain hidden (i.e., specific technical and organizational skills, product quality, excellent relations with clients, employees, suppliers and the local community), a strengthening in the cohesion of the company culture thanks to a stratification at all organisational levels of a clear knowledge of the company, its strategies and results, previously communicated in a fragmented way or not totally communicated (internal and external disclosure). Notably, the following feedback have emerged from the interviews: the IR journey contributes to improve the internal decision making process; develop the capacity for strategic sharing with collaborators (internal engagement); improve stakeholder engagement; raise awareness about medium and long-term risks; improve relations with banks (thanks to the amelioration of creditworthiness); consolidate the mutual trust between the company and its stakeholders, strengthen corporate reputation and produce a growth in the visibility of the management team and entrepreneurial leadership. In other words, the IR process contributed (and contributes) to transform corporate processes (Phillips et al. 2011), breaking down operational and reporting silos, leading to improved systems and processes (Roberts 2011), and improving resource allocation decision-making (Frìas-Aceituno et al. 2013).

The main external benefits include an improvement in the company's visibility in financial, academic and institutional national and international contexts (Eccles and Armbrester 2011; Eccles and Krzus 2010; Hampton 2012; Watson 2013) since the integrated report in Costa has become the main communication tool for all stakeholders.

"We have succeeded in creating an orderly and structured value system of some intangibles (in particular those concerning relational capital) which previously had not been correctly placed within the values creation model".

The overall judgment that emerges from the narratives seems extremely positive, although the stages of the process are by no means over: the company is aware of being "only halfway through its journey". The short-term future objectives include in fact the formation of a materiality matrix in line with IR and (partially) GRI principles—thus focusing on fewer, more strategic issues (Stubbs and Higgins 2014) and the definition of a structured non-finance reporting organizational process integrated with financial aspects at group level. Long-term primary goals can be divided into two areas of improvement: 1) the integrated thinking must permeate company culture and decision-making at all levels as a "natural" attribute; and 2) KPIs must increasingly represent value creation for the six capitals.

In conclusion, the pioneering Costa Edutainment's experience has been highly satisfying in terms of process undertaken (the company believes it should have been started even earlier) and provide a positive response to the basic issue regarding the opportunity to spread and apply the IR within SMEs (James 2013a, b). However, it does not hide that there are many difficulties, but these critical issues can be solved through the adoption of a process perspective aimed at developing a gradual growth of the corporate culture, and sustained both by the company heads and external qualified practitioners (Stubbs and Higgins 2014).

6 Conclusion

Among the emerging literature focused on IR, both theoretical arguments and empirical research are almost entirely absent in relation to SMEs. In order to deepen and enrich this "niche" (but relevant) topic, which is still underdeveloped, this work attempts to provide insights and to discuss the most critical aspects faced in operationalizing the IIRC Framework and implementing the IR in SMEs.

To date there are no international IR guidelines for SMEs aimed at concretely supporting minor entities in starting their IR "journey", whose final goal is the adoption of an integrated report. In this respect the practical tool "Guidelines for implement the IR in SMEs" issued by the NIBR helps to fill this gap, contributing to disseminate the knowledge of IR within SMEs and providing support so that SMEs should not be neglected from IR adoption. Indeed, the IR framework must "tailored" to SMEs, in terms of a "process-driven" and incremental logic, which is typically of SMEs (Marchini 2005). The early adopters (such as Costa Edutainment) exhibit a holistic approach and a significant engagement between internal and external stakeholders but the lack of "ad *hoc* rules" and standards for SMEs may be inhibiting a more widespread adoption of IR. Therefore, findings stress the need for producing a simplified and handy guide toward the implementation of IR within SMEs.

A fundamental SMEs' challenge in implementing the IR is represented by the evolution of both the entrepreneurial and management control culture. Basic steps include the involvement of the entrepreneurial team, the internal staff engagement process, aimed to gain a common understanding of the reporting process and data/performance indicators (Adams and McNicholas 2007) and the creation of cross-functional teams which act as key mechanism for implementing the IR process (Stubbs and Higgins 2014). The empirical findings confirm the importance of the creation of a working group, as well as the support of adequate information and technology systems and the setting up of partnerships with external consultants, including chartered accountants and business associations. In particular, the key role of practitioners emerges, who must take into consideration specific elements of SMEs, such as the family governance system and the entrepreneurial culture and serve as an integral part of the management team (Greenwood et al. 2002; IFAC 2008; Kolk 2010; Owen 2013; Havlováa 2015). In other words, it appears fundamental that a practitioner is able to explain to SMEs the advantages and the potential downsides arising from the adoption of IR (Parker 2005).

Both the NIBR's experience in drafting the IR Guidance for SMEs and the approach followed by Costa Edutainment Spa in adopting the integrated report, demonstrated that the guidelines (IIRC Framework 2013) can (and should) be simplified in order to be user-friendly for SMEs and also provide concrete examples aimed at highlight the most critical aspects, such as the implementation of the principles of connectivity materiality and integrated thinking. These fundamental concepts should be developed through different time-frames, because it may take more time before innovative disclosure mechanisms in SMEs emerge (Stubbs and

Higgins 2014). Materiality can be limited to specific aspects and stakeholders, as well as capitals and key performance/risk indicators. The process-logic highlights that it is necessary to start from the identification of objectives and the definition of what must be measured, to then select what can be measured in an SME whilst taking into consideration the existing information system. Subsequently, data can be collected, elaborated and analyzed and then presented in the final report (integrated report) (De Villiers et al. 2014; Higgins et al. 2014). Moreover, the integrated thinking principle, rather than being considered "too far" from SMEs cab ne appreciated as intrinsically linked to SMEs' strategic management process which involves a strict connection among input, outputs and outcomes. SMEs adopting IR move away from the outside-in approach, such as the GRI, to an inside-out (strategy led) or twin approach (Higgins et al. 2014). The empirical analysis suggests that IR should be conceived as a transitional—rather than a radical—initiative that drives a "transformation" from other forms of reporting (i.e. sustainability reporting) or financial reporting and has the power to develop the entrepreneurial and managerial culture of SMEs (Adams and Frost 2008; Adams and McNicholas 2007).

The main criticalities of the IR process within SMEs are relative to the need to: clearly define the concept of IR and its relationship with sustainability reporting; understand how the concept of investor changes for SMEs; adapt and simplify the main concepts (materiality, integrated thinking and connectivity) by providing practical examples and suggesting best practices. At the same time the empirical study stresses the main benefits deriving from the IR implementation: SMEs can enhance their reputation among stakeholders; build trust and improve employee loyalty and motivation; strengthen the internal/external dissemination of values and vision; improve the communication strategy and the disposition to measure the performance in a medium-long term perspective.

Finally, we are aware that the work is not free of limitations that could be partly emended through future research steps. The main limitation is due to the fact that the case-analysis is related to one case, and thus results are not generalizable. A further limitation is tied to methodology adopted to analyse the case-study, because the action research is difficulty standardizable and it is "context-specific" (Mackenzie et al. 2012). Consequently, this limits the generalization of the theoretical reflections. However, in the future the study should be enriched by extending the analysis to the other pilot companies belonging to the NIBR group. Finally, the study needs to be improved by analyzing the IR process implemented in Costa Edutainment considering a long-term perspective of time.

Notwithstanding the aforementioned limits, the work has both theoretical and practical implications since it contributes in enriching the debate on the benefits and critical issues relative to the diffusion of IR among SMEs in a research field which has not been adequately investigated. In addition, it contributes in supporting the diffusion of IR among SMEs, practitioners, consultants and chartered accountants by emphasizing the benefits deriving from the implementation the IR process and the adoption of the integrated report and the need to improve SMEs' organizational culture toward monitoring, assessing and reporting the SMEs' value process creation.

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Public Interest Satisfaction and Accounting's Assuming of Social Responsibility. Accounting Data on Profit Tax in the Context of Corporate Social Responsibility

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Abstract A major objective of the accountancy and the professionals from the field consists in supporting the durable economic development by meeting the public interest, under the conditions of observing the ethical principles imposed to the profession. By this study we intend to illustrate and to analyze certain factors which can perturb the fulfillment of the role of accountancy and accounting profession, seen in terms of meeting the public interest and assuming the social responsibility. In order to meet the proposed objective regarding the research undertaken, we shall support our reasoning and the ideas expressed starting from the specific problematic of the profit tax, which we consider significant for the given context. In order to intercept some relevant images on the approached topic, we'll realize an analysis oriented in double sense, aiming the national rules on one hand and the international rules regarding the determination and the accounting of profit tax on the other hand.

1 Introduction

The public interest and the social responsibility are two concepts enjoying an increasing wide circulation in business environment, in general, and also in the more limited context of the financial-accounting management.

Although, at first sight, it would seem that there is no significant connection between the two concepts previously mentioned and the financial-accounting management, one can say that, analyzed in the wider context of sustainable development context, in fact, there can be identified important correlations which point out the real possibility that the way in which are managed specific issues of

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financial-accounting field influences the idea of public interest and social responsibility.

Among others, it is said about accountancy that it is a social science because it significantly contributes to the management and the distribution way of resources within the economy. That's precisely why between the accountancy and the public interest concepts, respectively, social responsibility is, besides the questions, a direct connection.

Compared with other professions, the accounting profession is associated with a definitive feature namely that of accepting the responsibility in regard of the public interest defined, in our opinion, in terms of the general good, like a desideratum aiming the fulfilment of specific necessities of all parties concerned by the activities developed by economic entities (shareholders, potential investors, creditors, clients, suppliers, state, employees etc.). This acceptance is a representative feature for the accounting profession because, as opposed to other fields where the professional provides a service in the interest of a well-shaped client, in case of specialists activating in the accounting or in the audit field, although the direct beneficiary of his services is the entity which employed him and paid him, in fact, indirectly, the real beneficiaries of the actions undertaken by them are multiple and they form the public whose interests shall be deserved (Toma and Potdevin 2008).

Herewith, a social responsibility is assigned to the accountancy and to the accounting professionals, because through the activity developed, they shall contribute to the human progress by ensuring the premises necessary to a healthy development of the entities deserved (Corpul Experților Contabili și Contabililor Autorizați din România [CECCAR] 2011).

Therefore, we find that a major objective of the accountancy and the professionals in the field consists in supporting the sustainable economic development by meeting the public interest, under the conditions of observing the ethic precepts imposed to the profession.

In the context of those previously mentioned, this study wants to illustrate the existence of some factors which can perturb the fulfilment of the objective listed above, among which will be brought in discussion aspects concerning the accounting normalization process and the existence of some standards in the field, showing the globalization phenomenon that imposes the passage from an accounting referential to another, the reports between accountancy and taxability, the infringement of doctrine and professional deontology rules etc.

In order to meet the proposed objective regarding the research undertaken, we will support our judgments and ideas expresses by starting from the specific problematics of the profit tax, which we consider representative. Moreover, in order to intercept a more relevant image on the approached problematics, we'll realize an analysis oriented in double sense, aiming the national rules on one hand and the international rules regarding the determination and the accountancy of the profit tax, in the other hand.

2 Background

For the accounting registration of tax consequences regarding the entity's result, the accounting practice retains two methods: current tax method (due) and deferred tax method (tax report).

Current tax method is based on the conception according to which the profit tax expense shall correspond to the due tax (the tax due to the state), which makes that this expense be calculated starting from the fiscal result, without taking into account possible temporary differences. Therefore, the ignorance of temporary differences in the calculation of the profit tax expenses makes that the fiscal charge don't be proporţional anymore with the accounting result existing before the determination of the fiscal result and, as a consequence, don't be realized a corresponding connection of income expenses.

Deferred tax method begins from the prerequisite that on the determination of profit tax expenses shall be taken into account both the due tax related to the reciprocal exercise and the deferred taxes related to temporary differences. Through the accounting of deferred taxes, the fiscal effects of an operation are taken into calculation in the exercise when these occurred, even if these will be effectively borne in the following exercises.

2.1 Methodological Aspects Regarding the Determination and the Accounting of the Profit Tax in National and International Context

Considering the law regulating this problematics in Romania (Law no. 227/2015 regarding the Fiscal Code), for the beginning we'll mention that, in order to determine the taxable profit, it is used the current tax model (due) which takes into account the difference between the revenues and the expenses registered according to applicable accounting regulations, from which are reduced the non-taxable revenues and the fiscal deductions to which are added the non-deductible expenses.

In order to support the ideas to be subsequently expressed and in order to avoid the presentation of some normative aspects which can be found in specific legislation and also for a better perception of the methodology for determining the profit tax according to the national regulations, we refer to a case study, but without considering it as being exhaustive.

Working hypotheses on which our example is based are presented below (Table 1):

Table 1 Working hypothetical data (Own calculations)

Expenses	Amounts (thousand)
Costs of raw materials—consumptions	1400
Costs of raw materials—non-imputable gaps	120
Costs of consumables	600
Costs of energy and water	150
Costs of goods	800
Costs of insurance premiums—insurance of building, company	30
Costs of insurance premiums—life insurance for associate	90
Costs of protocol, advertising and commercial—contracted advertising	210
Costs of protocol, advertising and commercial—protocol	80
Costs of transport of goods and persons	174
Costs of travelling, detachments and transfers	7
Postal costs and telecommunications taxes	28
Tax duties and exercises—non-deductible	23.8
Tax duties and exercises—deductible	80
Salaries	310
Costs of insurances and social protection	108.4
Compensations, fines, penalties—paid to authorities	46
Other operational expenses—with supporting documents	36
Other operational expenses—sponsorships	50
Losses from receivables related to participations	360
Costs of exchange differences	36
Costs of interests	1200
Operational costs regarding the amortization of tangible assets	140
Operational costs regarding the allowances	90
Operational costs regarding the allowances—other non-deductible	36
Operational costs regarding the adjustments for the amortization of tangible assets	360
Operational costs regarding the adjustments for the amortization of circulating assets	80
Financial costs regarding the adjustments for the losing of value of financial assets	36
Financial costs regarding the amortization of obligations reimbursement premiums	42
Income tax expense	30
Total costs	6753.2
Revenues	Amounts (thousand)
Revenues from the sale of finished products	4600
Revenues from provided services	600
Revenues from the sale of goods	1200
Revenues from various activities	300
Revenues from compensations, fines and penalties—commercial	90

(continued)

Table 1 (continued)

Revenues	Amounts (thousand)
Revenues from financial assets	2540
Revenues from interests	80
Other financial revenues	30
Revenues from provisions	54
Revenues from adjustments for the depreciation of circulating assets	68
Revenues from adjustments for the losing of value of financial assets	50
Total revenues	9612

From the accountancy of the company we also know the following information:

– registered capital: 960,000 lei;
– registered legal reserve: 20,000 lei;
– indebtedness degree 3.67;
– exchange rate interests and differences are related to bank credits;

A. Accounting result = Total revenues − Total costs = **9,612,000** − **6,753,200** = **2,858,800 lei.**
B. Fiscal result = Accounting result − (Non-taxable revenues + Fiscal discounts) + Non-deductible expenses.

2.1.1 Determination of Non-taxable Revenues

a. **Dividend income**—according to the art. 23, letter a, Fiscal code, are non-taxable revenues "*the dividends received from a Romanian legal person*"*:* **2,400,000 lei;**
b. **Revenues from adjustments**—*according to the art. 23, letter d, Fiscal Code, are non-taxable revenues "the* revenues from the reduction or the cancelation of provisions for which no discount was granted"**: 172,000 lei.**

2.1.2 Determination of Non-deductible Expenses

a. **Expenses with insurances which don't aim the goods of the company**—according to the art. 25, paragraph 4, letter g, Fiscal Code *"expenses with insurance premiums which don't concern the assets and the risks associated to the taxpayer's activity, except those concerning the goods representing a bank guarantee for the credits used in the development of the activity for which the taxpayer is authorized or used within some rent or leasing agreements, according to contractual clauses":* **90,000 lei;**
b. **Entertainment expenses**—according to the art. 25, paragraph 3, letter a, Fiscal Code, the entertainment expenses are deductible *"within the limit of a share of 2% applied on the accounting profit to which are added the profit tax expenses and the entertainment expenses*"'.

Calculation basis = Total revenues − Total expenses + Expenses on profit + Entertainment expenses = 9,612,000 − 6,753,200 + 30,000 + 80,000 = 2,968,800 lei.

Deductible entertainment expenses = 2,968,800 × 2% = 59,376 lei.

Non-deductible entertainment expenses = 80,000 − 59,376 = **20,624 lei;**

c. **Other taxes, duties and similar levies**—according to the art. 25, paragraph 4, letter k, Fiscal Code, are non-deductible "the *expenses with taxes, contributions and levies to non-governmental organizations or professional associations which are connected with the activity developed by taxpayers and which exceed the equivalent in lei of 4.000 Euro per year, others than those provided by the law and at the paragraph* (1)": **23,800 lei;**
d. **Expenses with fines and penalties**—according to the art. 25, paragraph 4, letter b, Fiscal Code, are non-deductible "the *interests/the accruals for delay, the fines, the confiscations and the penalties, due by Romanian/foreign authorities, according to legal provisions, except those related to the agreements concluded with these authorities*": **46,000 lei;**
e. **Expenses without legal documents**—according to the art. 25, paragraph 1, Fiscal Code, *"for the determination of the fiscal result are considered the deductible expenses, the expenses made for the development of the economic activity"*.

   Under the conditions where, for realized expenses, there are no supporting documents, we can conclude the fact that there isn't possible to demonstrate the previously request, fact for which these expenses will be considered non-deductible from the fiscal point of view: **36,000 lei;**
f. **Sponsorship expenses**—according to the art. 25, paragraph 4, letter i, Fiscal Code, are non-deductible *"sponsorship and/or patronage expenses and expenses regarding private bourses granted according to the law"*. Herewith, we shall keep in mind the fact that those taxpayers performing sponsorships and/or patronage acts deduct the related amounts from the profit tax due on the level of minimum value among the following:

   1. the value calculated by applying 0.5% to the turnover;
   2. the value representing 20% from the due profit tax.

Sponsorship expenses registered in the accounting evidence: **50,000 lei.**

Are determined the sponsorship expenses which can be decreased from the due profit tax:

Total revenues − Total expenses + Sponsorship expenses = 9,612,000 − 6,753,200 + 50,000 = 2,908,800 lei.

Profit tax before the deduction of sponsorship expenses: 2,908,800 × 16% = 465,408 lei.

Turnover = 4,600,000 + 600,000 + 1,200,000 + 300,000 = 6,700,000 lei.

Turnover × 0.5% = 6,700,000 × 0.5% = 33,500 lei.

Profit tax before the deduction of sponsorship expenses × 20% = 465,408 × 20% = 93,082 lei.

Sponsorship expenses which can be deducted from the due profit tax: **33,500 lei.**

Remark: the amount which wasn't deducted from the profit tax, respectively the amount of 16,500 lei is reported in the following seven consecutive years and its recovery will be realized in the same conditions, at each deadline of the profit tax.

g. **Expenses with non-imputable gaps**—according to the art. 25, paragraph 4, letter c, Fiscal Code, are non-deductible "the *expenses regarding the goods and the king of inventory or fixed depreciable assets found absent from the housekeeping or damaged, non-imputable and also the related value added tax"* : **120,000 lei;**

   Remark: These expenses are deductible if fixed depreciable inventory/assets go into any of the following situations/conditions:

   1. damages existed as a result of some natural disasters or other Force Majeure causes;
   2. insurance contracts were concluded;
   3. they were qualitatively damaged and the destruction is proved;
   4. they have an expired validity date, according to the law;

h. **non-deductible VAT related to the non-deductible minuses to the inventory:** $20\% \times 120{,}000 =$ **24,000 lei;**

i. **Expenses with interests and losses in the exchange rate**—according to the art. 27, paragraph 1, Fiscal Code "*expenses with interests are entirely deductible if the indebtedness degree of the capital is lower or equal to 3." Paragraph 4 of the same article stipulates that "if expenses from differences in the exchange rate exceed the revenues from differences in the exchange rate, the net loss will be treated as an expense with interests, deductible according to the paragraph (1). Expenses/revenues from differences in the exchange rate, which enter within the provisions of this paragraph are those related to the loans taken into account for the determination of the indebtedness degree of the capital." Analyzing the paragraph 5 of the art. 27, we find that it is mentioned the fact that "if the indebtedness degree of the capital is over 3 or the own capital has a negative value, the expenses with interests and with net loss from differences in the exchange rate are non-deductible"*.

   Indebtedness degree $= 3.67 > 3$.

   It results that are non-deductible the expenses with interests and with differences in the exchange rate: **1,200,000 + 36,000 = 1,236,000 lei;**

j. **Expenses with provisions and adjustments for depreciation/value loss:** 36,000 + 360,000 + 80,000 + 36,000 = **512,000 lei;**

k. **Profit tax expenses**—according to the art. 25, paragraph 4, letter a, Fiscal Code are non-deductible "own *expenses of taxpayer with due profit tax, including those representing differences from the previous or from the current year and also profit or income tax paid abroad"* : **30,000 lei.**

   Fiscal result = 9,612,000 − (2,400,000 + 172,000) − 6,753,200 + (90,000 + 20,624 + 23,800 + 46,000 + 36,000 + 50,000 + 120,000 + 24,000 + 1,236,000 + 512,000 + 30,000) = 2,858,800 − 2,572,000 + 2,188,424 = **2,475,224 lei**

   Taxable result = Fiscal result − Legal reserve

Legal reserve calculation basis (according to the art. 26, paragraph 1, letter a, Fiscal Code "the *legal reserve is deductible within the limit of a share of 5% applied on the accounting profit, to which are added the expenses with profit tax, until it will arrive to the fifth part of the subscribed and paid-in share capital or of the patrimony, as applicable)* = Total revenues − Total expenses + Expenses with profit tax = 9,612,000 − 6,753,200 + 30,000 = 2,888,800 lei.

Total deductible legal reserve = 2,888,800 × 5% = 144,440 lei.

Maximum reserve to be established: 960,000 × 20% = 192,000 lei.

Legal deductible reserve to be established = 144,440 − 20,000 = 124,440 lei.

Taxable result = 2,475,224 − 124,440 = **2,350,784 lei.**

Due profit tax = 2,350,784 × 16% = 376,125 lei

Final due profit tax = Due profit tax − Sponsorship expenses according to the law = 376,125 − 33,500 = **342,625 lei.**

Profit tax already registered in accountancy: 30,000 lei.

Are also registered in accountancy:

$$\underset{\text{"Income tax expense"}}{691} = \underset{\text{"Profit tax"}}{4411} \quad 312,625 \text{ lei}$$

2.2 *Profit Tax in the View of International Accounting Rules*

The existence of some differences between the accounting and the fiscal rules, in respect to the determination of the fiscal result, imposes that the accounting result be submitted to some adjustments.

According to national regulations, the fiscal result is determined through the correction of the accounting result with certain permanent difference in the form of non-deductible expenses and, respectively, of non-taxable revenues.

In the view of international rules, in the present instance IAS 12 "Income taxes", the fiscal result is obtained as a result of the adjustment of the accounting result with a series of permanent and temporary differences. Permanent differences are represented by non-deductible expenses and by fiscal deductions, as these were previously presented, while temporary differences are those appearing as a result of the time delay existing between the accounting of an element and its inclusion in the fiscal result (International Accounting Standards Board [IASB] 2015).

Therefore, according to the national rules, the fiscal result is calculated according to the relation:

Fiscal result = Accounting result − Non-taxable revenues + Non-deductible expenses (where the accounting result represents the difference between the total of revenues and the total of expenses).

On the other hand, according to IAS 12, the fiscal result is obtained starting from the following calculation relationship:

Fiscal result = Accounting result ± Permanent differences ± Temporary differences.

According to those previously mentioned, we find significant differences in respect to the way of approaching the analyzed problematics, represented, in the case of international referential, by the taking into account, in addition, of some temporary differences.

These temporary differences which, as a matter of fact, delimit the two accounting referential from the conceptual and the methodological points of view, in matters of taxation of results, are defined by IAS 12 as **being the differences between the accounting value of an asset or of a balance debt and their fiscal basis.**

It results that they can have the form of (Morariu et al. 2005):

a. **taxable temporary differences,** which have as a result taxable revenues in the determination of taxable profit (or of fiscal loss) of future periods, when the accounting value of the asset or of the debt is recovered or discounted;
b. **deductible temporary differences,** which have as a result values that are deductible for the determination of the taxable profit (or of fiscal loss) of future periods, when the accounting value of the asset or of the debt is recovered or discounted.

As a result, if the net accounting value (from the balance) of an asset is above its fiscal basis or the accounting value of a debt is below its fiscal base, it results taxable temporary differences, while inverse situations show the existence of some deductible temporary differences.

For the determination of temporary differences, it's necessary to know the fiscal basis of assets and debts, meaning the value assigned to them in fiscal purposes.

In case of assets, the fiscal basis is obtained through the deduction, from their accounting value, of the taxable amounts resulting from the recovery of the asset and the cumulative value obtained in this way with the deductible amounts resulting from the use of the asset.

The determination of the fiscal basis for debts needs the diminution of their accounting value with the deductible amounts resulting from the debt reimbursement, the value thus calculated being increased with the taxable amounts resulting from the debts reimbursement.

It's possible that, in certain situations, the fiscal basis of an element not be obvious immediately. In this case, IAS 12 recommends that the entity recognize a debt or a receivable regarding the deferred tax every time the recovery or the reimbursement of the accounting value of the respective element determines future payments regarding higher taxes (or lower) than it would be their value if such recovery or reimbursement won't have fiscal consequences (Morariu 2004).

Under these conditions, the emphasis of fiscal consequences of temporary differences in accountancy presupposes the registration of a debt regarding the deferred tax, in case of those taxable, respectively of a receivable regarding the deferred tax, in case of deductible ones. This means that Romanian entities applying IFRS shall use additional accounts by whose help they illustrate deferred taxes, because national accounting regulations in force don't provide such accounts, namely: 1034 "Current profit tax and deferred profit tax recognized at own capitals", 4412 "Deferred profit tax", 692 "Deferred tax expense", 792 "Revenues from deferred tax income".

Debts regarding deferred taxes impose the emphasis of an expense, while the receivables regarding deferred taxes show an income, as presented below:

$$\underset{\text{"Deferred tax expense"}}{692} = \underset{\text{"Deferred profit tax"}}{4412} \qquad \text{Deferred tax debt} \times 16\%$$

$$\underset{\text{"Deferred profit tax"}}{4412} = \underset{\text{"Revenues from deferred tax income"}}{792} \qquad \text{Deferred tax receivable} \times 16\%$$

At the recognizance of an asset, its accounting value will be recovered in the form of economic benefits which the entity will get during the future periods. When the accounting value of the asset exceeds its fiscal basis, the amount of taxable economic benefits will exceed the value to be allowed under the form of deductions in fiscal purposes. This difference represents a taxable temporary difference and the obligation to pay taxes on the profit resulting during the future periods represents a debts regarding the deferred tax. As the entity recovers the accounting value of the asset, the taxable temporary difference will be retaken and the entity will have a taxable profit.

The recommencement of debts regarding deferred taxes imposes the emphasis of a revenue:

$$\underset{\text{"Deferred profit tax"}}{4412} = \underset{\substack{\text{"Revenues from}\\ \text{deferred tax income"}}}{792} \qquad \text{Deferred debt tax}$$

On the other hand, at the recognizance of a debt, its accounting value will be reimbursed during the future periods through an output of resources from the entity incorporating economic benefits. When resources get out the entity, a part of or their entire value is deductible at the determination of the taxable profit of a subsequent period of that when the debt is recognized. In such cases, there is a temporary difference between the accounting value of the debt and its fiscal basis. As a consequence, it appears a receivable regarding the deferred tax in relation to the profit taxes to be recoverable during the future periods, when the respective part of the debt is allowed as reimbursement for the determination of the taxable profit. In a similar way, if the accounting value of an asset is lower than its fiscal basis, the differences leads to the apparition of a receivable regarding the deferred tax in relation to the profit taxes to be recoverable during the future periods.

The recommencement of temporary deductible differences generates reimbursements to the determination of taxable profits of future periods. Although, economic benefits under the form of the reimbursement of taxes payment will enter in the accounts of the entity only if this gets enough taxable profit in respect to which the reimbursements can be compensates. Therefore, the receivables regarding the deferred tax are recognized only when there is the possibility that will exist taxable profits in respect to which temporary deductible differences can be used.

The accounting value of a receivable regarding the deferred tax shall be reviewed on each date of the balance and reduced if it isn't probable to be available enough taxable profit in order to allow the use of the benefit of a part of the respective receivable or of the receivable in its entirety.

The recommencement of receivables regarding deferred taxes impose the emphasis of an expense:

$$\underset{\text{"Deferred tax expense"}}{692} = \underset{\text{"Deferred profit tax"}}{4412} \quad \text{Deferred tax receivable}$$

Example: In December 2011 an enterprise purchased and put in action a technological equipment whose accounting value (Av) is 200,000 lei. From the accounting point of view, the equipment is depreciated on a useful life duration of 4 years and from the fiscal point of view it taken in view the normal life duration of 5 years. The linear depreciation is used both in accounting purposes and in fiscal purposes. The gross accounting result in the year 2012 is 70,000 lei and 50,000 lei in the year 2016 and the profit tax rate is 16% (Table 2).

In the Year 2012

Taxable result = Accounting result + Temporary difference = 70,000 + 10,000 = 80,000 lei.

Current profit tax = 80,000 × 16% = 12,800 lei.

$$\underset{\text{"Expenses with current profit tax"}}{691} = \underset{\text{"Current profit tax"}}{4411} \quad 12,800 \ \text{lei}$$

At the end of the year 2012, the net accounting value of the equipment, of 150,000 lei, is lower than its fiscal basis, of 160,000 lei, resulting a temporary non-deductible difference of 10,000 lei, fact for which it should be registered a deferred tax receivable in the amount of 10,000 × 16% = 1600 lei.

$$\underset{\text{"Deferred profit tax"}}{4412} = \underset{\text{"Revenues from deferred tax income"}}{792} \quad 1600 \ \text{lei}$$

As a result of previous registrations, is illustrated the following situation:

Table 2 Determination of temporary differences (Own calculations)

Year	Accounting depreciation	Fiscal depreciation	Net accounting value	Fiscal basis	Temporary differences
0	1 = Av/4 years	2 = Av/5 years	3 = Av−1	4 = Av−2	5 = 3−4
2012	50,000	40,000	150,000	160,000	10,000
2013	50,000	40,000	100,000	120,000	20,000
2014	50,000	40,000	50,000	80,000	30,000
2015	50,000	40,000	–	40,000	40,000
2016	–	40,000	–	–	–

Expenses with current profit tax: 12,800 lei;
(−) Revenues from deferred taxes: 1600 lei;
(=) Expenses with profit tax: 11,200 lei.

The bookkeeping of deferred tax allows a corresponding connection of expenses to revenues, the fiscal charge being proporţional to the gross accounting result.

In the Years 2013–2015
The situation is similar, being performed the same registration:

$$\underset{\text{"Deferred profit tax"}}{4412} = \underset{\text{"Revenues from deferred tax income"}}{792} \quad 1600 \text{ lei}$$

In the Year 2016
Taxable result = Accounting result − Temporary difference = 50,000 − 40,000 = 10,000 lei.

Current profit tax = 10,000 × 16% = 1600 lei.

$$\underset{\text{"Expenses with current profit tax"}}{691} = \underset{\text{"Current income tax"}}{4411} \quad 1600 \text{ lei}$$

At the end of the year 2016, the difference between the net accounting value of the equipment and its fiscal basis is recommenced, fact which generates the cancelation of deferred tax receivable registered during the previous exercises.

$$\underset{\text{"Deferred tax expense"}}{692} = \underset{\text{"Deferred profit tax"}}{4412} \quad 6400 \text{ lei}$$

As a result of previous registrations, it's obvious the following situation:

Expenses with current profit tax: 1600 lei;
(+) Expenses with deferred profit tax: 6400 lei;
(=) Expenses with profit tax: 8000 lei.

Example: A company contracted a credit about we know the following data: credit value 200,000 lei, interest rate 20%, the credit was contracted on 01.01.2015, credit duration 20 years, from fiscal point of view, the interest expenses are deductible on the time of the payment. The accounting result of the company in the year 2015 is 200,000 lei and in the year 2016 the accounting result is 100,000 lei. There are no other temporary differences except those appearing as a result of the recognizance of interest expenses on the time of the payment. What happens if the accounting result in the year 2016 is 30,000 lei?

Interest expenses registered in the year 2015 = 200,000 × 20% = 40,000 lei.

These expenses aren't deductible from the fiscal point of view, because these will be paid in the year 2016.

Fiscal result for the year 2015 = Accounting result for the year 2015 + Interest expenses = 200,000 + 40,000 = 240,000 lei.

Current profit tax due for the year 2015 = Fiscal result for the year 2015 × 16% = 240,000 × 16% = 38,400 lei.

$$\underset{\text{"Expenses with current profit tax"}}{691} = \underset{\text{"Current profit tax"}}{4411} \quad 38{,}400 \text{ lei}$$

Since in the balance of the year 2015 are recognized interest debts in the amount of 40,000 lei, it results that the accounting value of this debts is 40,000 lei. On the other hand, the fiscal basis of this debt is null, since the interest expenses will be recognized on the payment time, meaning in the year 2016. Accordingly, the accounting value of the debt is higher than its fiscal basis, resulting a temporary deductible difference of 40,000 lei, which generates a deferred tax receivable of 40,000 × 16% = 6400 lei.

$$\underset{\text{"Deferred profit tax"}}{4412} = \underset{\text{"Revenues from deferred tax income"}}{791} \quad 6400 \text{ lei}$$

In the year 2016 the interest will be paid and the deferred tax receivable will be retaken, while interest expenses which weren't recognized in the year 2015 to the calculation of the fiscal result will become deductible reducing in this way the fiscal result of the year 2016. For this, the enterprise shall estimate, before the registration of deferred tax receivable, that in the year 2016, it will have a fiscal profit at least equal to the value of temporary deductible differences which will be retaken, meaning 40,000 lei.

Fiscal result for the year 2016 = Fiscal result for the year 2016 − Interest expenses (became deductible) = 100,000 − 40,000 = 60,000 lei.

Current profit tax due for the year 2016 = Fiscal result for the year 2016 × 16% = 60,000 × 16% = 9600 lei.

$$\underset{\text{"Expenses with current profit tax"}}{691} = \underset{\text{"Current profit tax"}}{4411} \quad 9600 \text{ lei}$$

The receivable regarding the deferred tax registered in the year 2015 has no object, since both in its accounting value and it fiscal basis are null and it shall be retaken.

$$\underset{\text{"Deferred tax expense"}}{692} = \underset{\text{"Deferred profit tax"}}{4412} \quad 6400 \text{ lei}$$

If the accounting result in the year 2016 would have been 30,000 lei, it would have been insufficient for retaking the temporary deductible differences in the amount of 40,000 lei. In this case, the fiscal result is a loss of 10,000 lei and the enterprise cannot benefit of the advantage of retaking the temporary deductible differences. If the company would have estimated at the end of the year 2015 that it will get in the year 2016 a fiscal result of 30,000 lei, then it wouldn't have been registered the deferred tax, because the retaking of temporary deductible differences would have been higher than the estimated fiscal profit.

3 Solutions and Recommendations

3.1 Fulfillment of Public Interest and Social Responsibility Under the Influence of Disturbing Factors

Analyzed in the specific context of the profit tax, the general objective of the accountancy and accounting profession, fulfillment of public interest, shows certain difficulties in respect to its attainment, because, from this perspective, appear certain questions to which the accountancy hesitates to give a clear answer or it makes it in an inconclusive way.

In our opinion, can be identified certain factors disturbing the idea of fulfillment of public interest, as we perceived it in terms of accountancy and accounting profession, by fulfillment of information needs specific to all parties concerned with the activities carried forward by economic entities.

Below, we'll analyze also some of the factors previously referred, the way of presentation being synthetic, justified by the complexity of the approached problematics, which needs a corresponding particularization in a work of higher dimension.

3.2 Accounting Normalization Process

In this context, two distinct elements are brought in discussion: the existence of several categories of beneficiaries of the information provided by accountancy and, respectively, the accountancy standardization through rules transposed in legal rules.

We consider that the existence of some rules renders impossible the complacency, from the financial communication point of view, of all categories of users of accounting information. The question if information provided by accountancy succeed to answer to the diversity of users expectations, sometimes contradictory, only through the simple application of rules, was and remains actual. Without doubt that the production of information in order to fulfill the users' needs represents a fundamental objective of accountancy, but it raises the question in what measure it succeeds to keep an equidistance regarding their divergent interests. Herewith, we shall not omit that the appreciation of the way in which the true and fair view is rendered by accountancy represents a subjective process, influenced by the position on which is located each category of users. Thus, shareholders, for example, can have a certain view on the true and fair view image, while for the state and for the creditors, the same information can have another value or significance (Bădîrcea et al. 2016).

In terms of problematic related to the profit tax, the accounting normalization process infringes the desideratum of fulfilment of public interest, because the methodology for its determination, as it was previously presented, illustrates several technical aspects which lead to the fact of giving advantage, from the methodological and the informational point of view, to certain categories of users of accounting information.

We support this idea because the results of economic entities can be brought to the desired image through the actions of accounting professionals and with "the acceptance" of accounting rules. The size of results depends, in many cases, on the accounting methods adopted. The accounting result, implicitly the fiscal result, is a subjective indicator, which depends on the concerned parties, on the economic and the political system, but also on the management and organization way of economic entities (Popa 2008a).

As a consequence, under the conditions where the existence of many accounting referential shows different categories, declared or undeclared, by privileged users of accounting information, it inevitably raises the question in which measure we can really speak about the fulfillment of the public interest in the sense of ensuring an informational symmetry.

3.3 Passage from an Accounting Referential to Another

The access to international markets of capitals involves the elaboration of several sets of financial situations, among which we mention: corresponding to the national referential; corresponding to the European rules, if the entity doesn't belong to the community space; corresponding to the international referential etc.

Pregnant manifestation of globalization phenomenon and mobility of capitals impose the adaptation of a common accounting language which facilitate the investment process, under the conditions of ensuring the comparability of information in time and space. The implementation of international accounting referential based on IFRS is the solution aimed for this problem, although, on global level, it is yet put in the matter the assurance of a convergence in the field.

In this context, the problem of the passage from a national accounting referential to that based on IFRS brings in discussion certain aspects raising question marks from the perspective of the subject in discussion—fulfilment of public interest. We consider here the discrepancy existing in respect to the results obtained under the conditions of the implementation of two different referential.

In order to support the ideas expressed, it's relevant the example of the company Daimler-Benz, the first German company registered to Security Exchange of New York which, in the year 1993, reported, according to the German accounting referential, a profit of 615 million DM and, according to US-GAAP, for the same financial exercise, as a result of the reconciliation, the result was reflected under the form of a loss of 1839 million DM (Popa 2008b).

This example, relevant in respect to the influence of the passage from a referential to another on the results of the entity, can bring justified queries in respect to their real size. Which of the two results corresponds to the requirement regarding the fulfillment of the public interest? Which of the two results is correct? In which of the two situations the public was correctly informed?

3.4 The Relationship Accounting-Taxability and Management of Results

The discrepancy we notice in this case consists in the fact that, in the case of national accounting referential, the accounting information has a privileged addressee represented by the Inland Revenue. But the role of the accountancy doesn't consists in serving the state's interest, but in serving the public interest, by providing useful information for all concerned users equally. The state is only one of those users and the major purpose of the accountancy is not that to provide information in taxation purposes, even if the fiscal result is based on the accounting result (Păunescu 2015).

The interposition of fiscal rules with the accounting rules, in our opinion, influences in a negative way the meeting of the general objective of the fulfillment of public interest, because, on one hand, as we previously illustrated, they create a privileged user of information—the state, and on the other hand, they stimulate professional reasoning aiming the management of the results depending on the interests of different parties involved in the management and administration process of entities.

The influence of users of accounting information by adjusting or manipulating the results contravene totally to the idea of fulfillment of public interest. On the other hand, the cosmetic change of the results or the implementation of some professional arguments aiming the exploitation of legal rules in order to diminish the results with the purpose of reducing the fiscal charge contravenes to the idea of assumption of social responsibility, under the conditions in which it is known the fact that a large part of the taxes collected by authorities are directed for the fulfillment of the public necessities.

In this context, we consider that a particular situation is represented by economic entities from Romania which implement IFRS as basis of the accountancy, because the determination of the profit tax, in their cases, presupposes the use of the accounting result, obtained through the application of the international accounting referential, as starting point in the application of fiscal rules. This condition of fact illustrates, in our opinion, two situations which can lead question marks in respect to the correctness of the financial communication process, in general, and of results, in special:

– the fact that the auditors of financial situations corresponding to IFRS give a reasonable and not an absolute assurance on the correctness of the accounting result, under the conditions in which it is known the fact that international accounting rules stimulate the professional reasoning based on accounting processing and options;
– in what measure the representatives of the Inland Revenue have the necessary competence to check if the accounting result, according to which the fiscal result is based, is correctly determined in the spirit of IFRS.

Therefore, we can conclude the fact that, in terms of determining the taxable profit, both the interaction between the accounting and the fiscal rules, and the practice of a creative accountancy can have negative repercussions in terms of fulfillment of public interest, under the conditions in which we discuss about users of accounting information which can follow different purposes from the point of view of the size of the results illustrated by the accountancy.

3.5 Infringement of Doctrine and Professional Deontology Rules

The assumption of a responsibility in regard of the public interest represents a distinct feature for the accounting profession. In our opinion, this responsibility can be analyzed from three points of view, but which aren't divergent, but on the contrary, it should have as goal to ensure a convergence, the convergence point being represented exactly by the meeting of this fundamental desideratum of the accountancy and the accounting profession, thus:

– the supply of some qualitative information which serve, equally, to the specific needs of all categories of users who form what we generically call the public;
– the supply of some qualitative professional services which justify the confidence of the public, oriented in the direction of supporting the durable development of business and the economic environment in general, according to the principles of the social responsibilities assumed;
– the existence of a direct relationship between meeting the ethical principles and ensuring the quality of services provided.

The observance of the principles promoted by the doctrine and the deontology of the accounting profession shall be seen as a significant part of the efforts oriented in the direction of meeting the general objective of assuming the social responsibility and fulfilling the public interest.

We express this point of view because the infringement of ethical principles in the profession can bring serious damages to its image, especially because, in our opinion, this disturbing factor can have amplifying effects on the other factors we previously analyzed.

Seen in terms of specific problematics of the profit tax, the infringement of doctrine and professional deontology rules shows certain aspects bringing in discussion ethical principles referring to morality, independency and professional competence. In this context, we illustrate the fact that the entire activity carried out by accounting professionals shall answer to some interdependent requirements, through whose cumulative fulfillment is ensured, in fact, the fulfillment of the desideratum to answer to the public exigencies, in the following way: professionalism = quality of provided services = credibility in information provided to the public = confidence in accounting profession.

Herewith, starting from the methodological elements we previously presented in respect to the determination of the profit tax, we can identify certain deontological aspects which, in our opinion, reflect on the desideratum aiming the fulfillment of the public interest and it affect, in equal measure, the credibility in accounting information and the confidence of the public in the accounting profession. From the aspects previously referred to, we list the most representative aspects below:

- exploitation of legislative lacunas, without infringing the rules, by using creative accountancy techniques, in order to "shape" the results in the favor of a concerned party and in the disadvantage of other parties;
- commitment of frauds, by falsifying the results, as a result of the intended infringement of legal provisions in force;
- infringement of fundamental principles of professional deontology: integrity, objectivity, professional competence, confidentiality etc.

4 Future Research Directions

Future research must take into consideration the limits of this study as well as possible extensions.

As a result, authors must think of several guidelines, considered to be the most relevant in this context:

- firstly, should be pointed out that the example of corporation tax, upon which was built the present study, is not the only which can be approached in relation to this topic and for this reason the analysis can be extended by bringing into discussion also other components of managerial and financial accounting such as: green accounting, production cost measurement, financial statements and financial communication process etc.;
- development and thoroughness of analyses carried out regarding the disturbing factors that have been brought up as well as taking into account other factors that affect the role of accounting in terms of public interest satisfaction and social responsibility;
- tackling the challenges of corporate social responsibility, not only from the perspective of ensuring the premises necessary for the sustainable development of economic entities, but also from the point of view of classical elements that the definition of CSR is based upon, namely: concern toward environment, companies' investments in both human capital and environment-oriented technologies, relation between companies and stakeholders, involvement in humanitarian campaigns etc.

As a result of the above-mentioned standpoints, future research will be able to acquire a more dynamic and complex nature.

5 Conclusions

From the analysis realized, we can notice the fact that accounting professionals can encounter difficulties in respect to the realization of the desideratum concerning the fulfillment of public interest or, sometimes, even they are at the origin of some factors which can disturb the fulfillment of this objective.

Without derogating from the undisputable importance of the accountancy within the company, because of the major influence it can have on the development of an economy, it's our obligation to notify the fact that this is perfectible in respect to the production and communication process of specific information, thus the defaults identified can be corrected.

It's important that, through the products put at disposal of the public, the accountancy significantly contribute to the fulfillment of informational necessities of all participant actors to the development of economic activities.

Even if our analysis was intentionally limited, being realized only on the example of the profit tax, we consider that, because of the complexity of the subject, this can be extended by adding other elements and also by including some other disturbing factors in the research process, this approach involving the realization of a major study.

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A Systematic Review on Corporate Social Responsibility Literature in the Middle East: Conceptual Gaps and Challenges

Petya Koleva

Abstract Corporate Social Responsibility (CSR) is a research area of burgeoning focus for international business and yet it is mostly dominated by its Western perspectives. However, the CSR movement can have global ramifications and thus it is important to examine its potential variations in different socio-cultural contexts. This paper chooses to examine the status of CSR in the Middle East by utilising extant secondary sources in the field. The results highlight two interconnected yet contradictory issues: (a) CSR as a concept does not appear to be well-researched or well-developed in the Middle Eastern context however it is highly possible that (b) the CSR movement as understood in the Western context may not be particularly relevant in this socio-cultural context and maybe alternative interpretations of CSR are needed. The review identifies gaps in the literature, discusses possible research directions that can enrich our knowledge of CSR by developing unique nuances that will augment the knowledge domain with new theoretical insights for the phenomenon.

1 Introduction

The limitations of social responsibility in the business context have been the topic of discussion for much of the twentieth and twenty-first century (Maignan and Ferrell 2000; Davis 1960; Frederick 1960; Bowen 1953). Earlier interpretations of the role of business in society has had a limited interpretation of corporate social responsibility (CSR) where businesses need not be concerned about anything else than profit maximization (Friedman 1970). This prevalent belief was not to last long; as modern corporations were quickly recognised as influential social actors (Blowfield and Murray 2008), some becoming economically larger than a small developing nation's economy (Dobers and Halme 2009; Matten and Crane 2005).

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Currently, very few theorists and practitioners would argue that CSR is not important even though there appears to be little consensus among scholars on the exact social role of the business (Scherer et al. 2009; de Bakker et al. 2005) and the extent to which businesses should cater to their social and environmental role beyond the economic principle that governs their existence (Scherer and Palazzo 2011).

With the subsequent developments in the field, a number of scholars have looked at different conceptualisations of the CSR phenomenon. For instance, Carroll (1999) and de Bakker et al. (2005) focused on the historical evolution of the CSR concept since its introduction in the 1950s and found that CSR gained significant prominence over the years. Waddock (2004) attempted to clarify overlapping CSR-related constructs thus illustrating in the process the complexity of the phenomenon and yet the similarities that bind the CSR literature together. O'Riordan and Fairbrass (2008) focussed on the leading factors that influence the CSR stakeholders thus placing stakeholders in a position of prominence while Peloza and Shang (2011) focused their review on CSR's value-creation potential for the various stakeholders. Aguinis and Glavas (2012) in their meta-review attempted to synthesise and integrate CSR research in all three levels of ontological analysis: institutional, organisational and individual, demonstrating in the process the unevenness of research in the field and the large gaps in knowledge that still persist with the biggest gaps being at the individual level of analysis. Finally, Frynas and Yamahaki (2016) reviewed theories related to the external and internal drivers of CSR and concluded, similarly to Aguinis and Glavas (2012) that there is a need of multi-theory studies and more research at multiple and individual levels of analysis.

Other scholars attempted a more focused review on a specific aspect of CSR: for example, Carroll and Shabana (2010) and Salzman et al. (2005) who used different methods to examine the business case for CSR, with the latter attempting to assess existing tools related to the measurement of CSR. Evaluation and measurement of CSR was also prominent in other focused reviews (e.g. Wood 2010; Peloza 2009) which attempted to measure the impact of CSR on financial performance of the company that implemented it.

Other literature reviews on CSR have been discipline-focused—marketing (Enderle and Murphy 2009; Maignan and Ferrell 2004), political science (Scherer and Palazzo 2011), and industrial and organisational psychology (Aguinis 2011), and they have predominantly focused on reviewing the relevant literature concentrating on a particular discipline or normative and instrumental forms of CSR implementation. In these debates and developments, the participants were predominantly Western scholars, with a Western perspective and working within a developed-country context. There has been a relative dearth of reviews with regards to CSR in the context of a non-Western and undeveloped country.

This research work redresses this gap to some extent by synthesizing the CSR literature published in a non-Western context. The research could have focused on any socio-cultural context (Latino-American; South Asian; South-East Asian), however the lead author's familiarity with the Middle-Eastern region offered a distinct advantage in focusing on the particular context. Other research, hopefully, will address the research gap in terms of other socio-cultural contexts. Our review utilises established CSR classification frameworks and in particular the Aguinis and Glavas (2012) meta-framework when organising the literature, distributing the sources across the three main levels of analysis: institutional, organisational and individual. Building upon their framework, this work reviews the extant literature to establish what CSR means in the context of the Middle-East and confirm or reject the implicit assumption in the literature that CSR is constant and consistent across different socio-cultural contexts while identifying relevant research gaps.

2 Scope and Protocol of the Review

This literature review relies on information extracted from 28 peer reviewed journal articles published in the 2004–2015 time-frame. The scope of the review was shaped following the protocol suggested in Tranfield et al. (2003). In scoping the study, the focus was on exploring CSR in the Middle Eastern region. For this review Middle-East was defined as the geographical area including the territory of Syria, Jordan, Israel, Lebanon, Saudi Arabia, United Arab Emirates (hereinafter UAE), Oman, Qatar, Bahrain, Iran, Iraq and Egypt.

The review protocol consisted of a number of steps: the first one being to identify relevant publications for review that corresponded to the inclusion criteria (presented in Table 1). The suggested search time frame for published studies was 2004–2015, as CSR was introduced in the region for the first time in 2004 by the Dubai Chamber of Commerce (Katsioloudes and Brodtkourb 2007). Only papers published in peer-reviewed journals were considered and the search was limited to articles written in English. The final search was performed in September, 2015 on titles, key words and abstracts resulted in 4239 scientific articles. The search for relevant publications was limited to two academic databases: SCOPUS (n = 15) and EBSCO (n = 4224).

The databases identified were screened against the exclusion criteria. The exclusion criteria were:

1) Subject matter was not CSR (e.g. publications focused on the Middle East but not on CSR, such as accounting, reporting, corporate governance, knowledge-management, renewable energy and gender issues, n = 426);
2) Out of the geographic region (e.g. publications with a CSR focus but outside of the examined geographical region, n = 3789) and
3) Publications that were not journals (i.e. also excluding conference papers).

This first selection phase yielded 24 potentially relevant articles (SCOPUS n = 7; EBSCO n = 17; with no duplicates) examining CSR issues in the Middle East. Next, both authors independently reviewed the abstracts, titles, and key words of these 24 articles, again applying the above mentioned inclusion and exclusion criteria. Differences between the researchers were discussed until an agreement was reached. Then the criteria of inclusion were relaxed and articles that were identified as relevant via the reference list were included. This step resulted in the inclusion of

Table 1 Inclusion criteria

Time frame	2004–2015
Key words	Corporate social responsibility Middle East
Document type	Article
Search in	Article title and/or abstract and/or text
Search databases	SCOPUS and EBSCO research databases
Type of publication	Peer-reviewed journals
Language	English

additional 5 articles that were identified after examination of the 24 articles' reference lists which were not identified in the initial search. All four articles were recognised as relevant for the scope of this review. Thus, the final sample contained 29 relevant articles published in 17 journals, which were then examined, analysed and evaluated. Key themes and issues were derived from the data and presented in the findings section.

3 Findings

The immediate and most apparent observation was that there were significantly more empirical articles (n = 25) than conceptual (n = 4) indicating a clear preference towards empirical work and an assumption that there was no need for developing unique conceptual frameworks for the region. In other words, the Western models and concepts of CSR were readily applied in the Middle-Easter Context. A great number of these studies has been published by the *Journal of Business Ethics* (n = 12). Regarding the level of analysis, 5 articles focused on the institutional level, 23 articles focused on the organisational level of research, and only 1 article focused on the individual level of analysis.

It appears in Fig. 1 that there was a peak of interest in 2013 but it is likely that this small increase reflects the interest to the socio-political turbulence in the region in the last 4 years and the number of articles is too small to be conclusive either way.

Our literature search identified that Lebanon had the biggest share of publications (15) and it was dominated by a prominent author (Jamali) and her associated research network (Fig. 2). The next most popular country was the UAE with three publications, three each for Egypt, Syria and Middle East (general), and two each for Saudi Arabia and Iran and one publication for Jordan. The total count for the various countries is greater than 29 since some of these studies (e.g. Selvik 2013; Jamali et al. 2009a) were focused on more than one country.

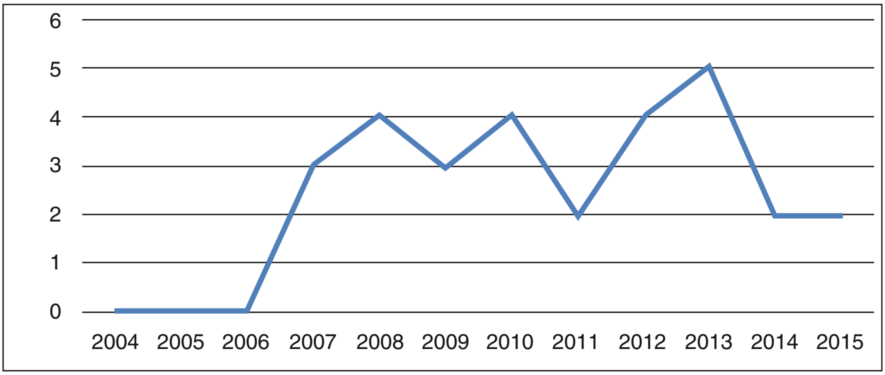

Fig. 1 Summary of literature search results—publications per year

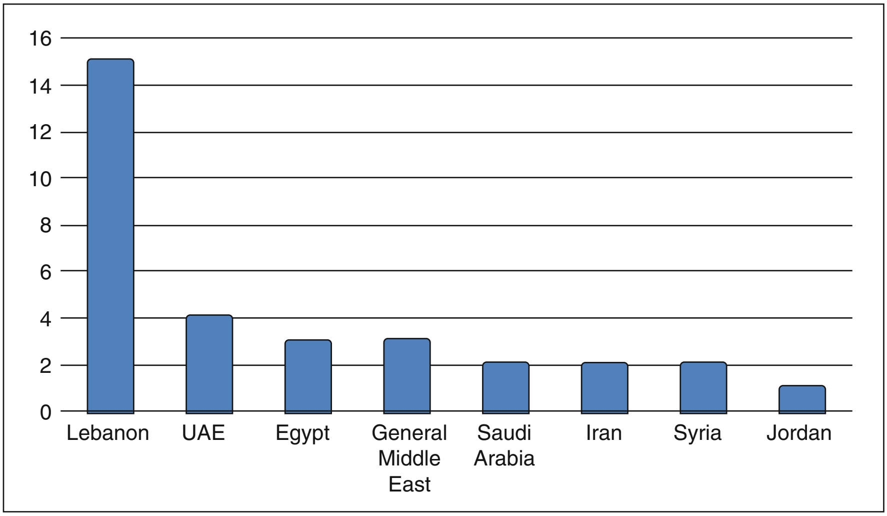

Fig. 2 Summary of literature search results—publications per country

4 Institutional, Organisational and Individual Levels of Analysis

In the following subsections, there is an analysis and synthesis of the literature on CSR in the Middle East for each of the institutional, organisational and individual levels of analysis. For each level of analysis there is a tabulated record of the predictors, outcomes, mediators and moderators as identified in the literature. In the conclusion, the information is synthesized and discussed with regards to future research directions and current knowledge gaps.

Table 2 Summary of empirical research on corporate social responsibility at institutional level of analysis

Predictors	Moderators of CSR-outcomes relationship	Mediators of CSR-outcomes relationships	Outcomes
Socio-political and historically imposed pressures (Jamali and Neville 2011)	Stakeholders (Alshammary 2014; Darrag and E-Bassiouny 2013) Gender equality (Karam and Jamali 2013) Political environment (Avina 2013)	N/A	CSR affects and is affected by socio-political and historical factors (Avina 2013; Karam and Jamali 2013)

4.1 Institutional Level of Analysis

Publications examining CSR on the institutional level of analysis focused on the normative, cultural-cognitive or regulative elements of using CSR in the organisation as defined by Scott (1995). These studies addressed laws, standards as well as normative elements and constructs that are cultural-cognitive and thus are shaped by the society and the various stakeholders of the firm (Scott 1995). These are constraints and heuristics imposed upon the company. Such institutional focuses were identified in five of the publications, as summarised in Table 2.

Predictors At institutional level of analysis, CSR is examined as a phenomenon constructed by a nexus of institutional pressures imposed by national, historical and socio-political configurations (Jamali and Neville 2011). These institutionalised drivers shape local SMEs' CSR initiatives to target the less fortunate with a central focus on philanthropic initiatives whereas the MNCs seem to be involved in mimetic isomorphism to stay consistent with the corporate centre of the MNC and home stakeholders (Jamali and Neville 2011). The former specifically refers to the 'implicit' CSR practices that most often adhere (or limit themselves?) to philanthropic initiatives (Jamali and Neville 2011), which is often juxtaposed to the 'explicit' CSR practices which are mainly observed in multinational companies (hereinafter MNCs) which engage in CSR interventions as a response to the MNCs' directives and the need for local legitimacy in the eyes of external, local stakeholders (Jamali and Neville 2011). The same study identified the limited efforts made by the government to incentivize and regulate CSR and thus acting as yet another institutional predictor.

Moderators The relationship between CSR and outcomes at the institutional level of analysis is focused primarily to the moderating effect stakeholders have, as well as to the institutional pressures imposed by socio-political factors. For example, Alshammary (2014) and Darrag and E-Bassiouny (2013) emphasized the importance of Islam for the CSR practices of Islamic institutions and organisations that operate in Islamic countries. According to these studies, local organisations needed to develop a stakeholder orientation as a result of pressure exerted from the legitimate rights of Islamic stakeholders. Karam and Jamali (2013) explored how companies can serve as change agents, by mobilizing and channelling their CSR initiatives in order to address relevant, substantive, and important social development challenges, particularly with regard to gender equalities in the region. Furthermore, Avina (2013) examined the evolution of CSR as driven by institutionalised political pressures associated with the Arab Spring socio-political movement. Such pressures were seen to affect the business environment and the way organisations are expected to behave but in the same time such pressures were unique for the region.

Mediators Our attempt to identify studies that examine the mediating role of CSR at an institutional level of analysis was not successful and there is a significant gap in this regard. In other words, underlying mechanisms between predictors and outcomes of CSR have not been investigated at this particular level of analysis. This knowledge gap can serve as an important springboard for future multilevel CSR research.

Outcomes A consistent finding regarding the institutional-level outcomes of CSR initiatives is the strong and institutionalised pressures exerted by socio-political and historical factors (Jamali and Neville 2011). CSR is considered to be influenced by these institutionalised forms of impact but also to exert a moderating influence of its own, a positive influence as it attempts to soften their effect (Karam and Jamali 2013). Thus on the institutional level there are indications that the region is undergoing transformations with regards to CSR (Avina 2013) and the CSR appears to be of a different kind. These differences may not appear substantial as the expression of the CSR conforms into the Western CSR narratives, however the origins appear to be different (in particular the religious influence exerted by Islam and the socio-political upheaval caused by the Arab Spring).

4.2 Organisational Level of Analysis

The reviewed articles that examine CSR on the organisational level (presenting the majority of the identified publications, n = 23) are concerned with the implications of CSR within the organisation and the outcomes of such initiatives. The literature review suggested that the organisational level studies are primarily aiming to empirically test particular tentative relationships and hypothesis or are focused on examining organisational implications of CSR in practice and managerial perceptions towards CSR.

Predictors A predictor of CSR engagement is the firm's instrumental motivation (Table 3)—the notion that CSR operations could improve customers' perceptions of the firm (Kolkailah et al. 2012), financial performance, employee commitment and corporate reputation (Rettab et al. 2008). Furthermore, firms were motivated to engage in CSR when it was perceived as a source of opportunity that can ultimately serve to protect the firm against erosion of financial benefits (Jamali and Sidani 2008). Firms could also be motivated by normative reasons (following Wiener's (1982) typology) such as the organisational values and principles embedded by the firm founders or when the principles of legitimacy (Jamali and Keshishian 2009), generalized community commitment (Jamali 2010) or willingness to give back to

Table 3 Summary of empirical research on corporate social responsibility at organisational level of analysis

Predictors	Moderators of CSR-outcomes relationship	Mediators of CSR-outcomes relationships	Outcomes
Instrumental motivations Consumer perceptions (Kolkailah et al. 2012) Financial performance, employee commitment and corporate reputation (Rettab et al. 2008) *Normative motivations* Values and principles, legitimacy of the organisation (Jamali 2010; Jamali and Keshishian 2009; Jamali and Mirshak 2007) Social acceptance (Jamali et al. 2009a, b) Altruism and religiosity (Hammad et al. 2014) Corporate governance (Jamali et al. 2010)	Leadership, control mechanisms and systems (Jamali et al. 2010) Market orientation, firm performance, corporate reputation, employee commitment and consumer behaviour (Kolkailah et al. 2012; Brik et al. 2010; Rettab et al. 2008) Innovation (Jamali et al. 2011)	Mediating corporate practice in conflict zones (Jamali and Mirshak 2010) *Organisational implications* Moderate to no strategic alignment to core business and business operations (Mandurah et al. 2012; Jamali and Keshishian 2009) in SMEs. Structured and formalised with a conscious attempt at systematising CSR communications and reporting in MNCs (Jamali et al. 2009b) *Managerial interpretations* Philanthropy (Ali and Al-aali 2012; Jamali et al. 2009b; Jamali and Sidani 2008; Jamali 2007; Jamali and Mirshak 2007) Economic and instrumental role (Jamali et al. 2009b; Jamali and Sidani 2008) Managerial ethics (Soltani et al. 2015) and moral judgement (Hammad et al. 2014)	Lack of reporting and measurement (Jamali and Mirshak 2007; Nejati and Ghasemi 2012) Improved corporate reputation and employee commitment (Rettab et al. 2008) Market orientation Brik et al. 2010) Consumer perceptions (Kolkailah et al. 2012) Divergent focus—global issues (MNCs) national issues (SMEs) (Karam and Jamali, in press) Value creation (Jamali et al. 2011)

society (Jamali and Mirshak 2007). All these normative reasons are rooted in the organisation and ultimately translate to a desire from firms to achieve social acceptance in their respective communities (Jamali et al. 2009a). Interestingly, Hammad et al. (2014) suggested that altruism and religiosity could arouse customers' positive motivational attribution process and lead to customer acceptance thus serving as predictors for organisational implementation of such practices (thus implicitly the normative predictors may be linked to instrumental predictor types). Thus firm-specific variables are influential in driving the implementation of CSR initiatives—for example, the alignment of social goals to corporate strategic objectives (Mandurah et al. 2012). On the other hand, non-governmental organisations (NGOs) would engage in CSR partnerships with local firms motivated by the need for funding or promoting their core mission (Jamali and Keshishian 2009). In the same time, Jamali et al. (2008) suggest that corporate governance itself could also be viewed as a predictor of CSR, as it ensures a solid foundation for sustainable CSR practices, although corporate governance has divergent applicability in for-profit and non-profit organisations (Jamali et al. 2010).

Moderators CSR as a moderating factor (Table 3) on organisational level was examined in a number of studies. Jamali et al. (2008) suggested that effective long-term view of leadership, effective internal control mechanisms and strong sense of responsibility towards stakeholders can moderate the outcome of organisational CSR activity. The same applied to managerial structure, ownership and the role of the board of directors as well as differing orientation towards CSR that could also moderate the outcome of CSR (Jamali et al. 2010). Rettab et al. (2008) examined the moderating effect of CSR on the associations between market orientation, firm performance and corporate reputation in the context of Dubai. The authors found positive associations between CSR and financial performance and a positive association of CSR to employee commitment and corporate reputation. According to the authors—Rettab et al. (2008) highlighted that in their research 90% of the sample were expatriates, for whom knowing that their organisations engage in CSR was linked to fair HR practices and protection of their interests. However, a different study by the same research team (Brik et al. 2010) conducted in Dubai indicated that CSR can moderate the association between customer orientation and financial performance. Even though CSR had a synergistic effect with regards to market orientation, financial performance and corporate reputation, it seems like it does not moderate the association between market orientation and employee commitment (Brik et al. 2010). The authors explained that in contrast to the first study (Rettab et al. 2008) where expatriates were employed on short-term contracts based on calculative commitment and thus did not demonstrate attitudinal commitment (i.e. loyalty to the company), in the second study the employees were considered unlikely to care as much about CSR activities as they were more attached to their home country than the host country in which CSR activities have had the most impact (Brik et al. 2010). Brik et al. (2010) also explored the moderation of CSR on market orientation and business performance by examining the interactive effects between CSR and the market orientation subsets. Overall, their results show that the association between market orientation subsets and performance, with the exception of customer orientation, did not change significantly as a result of CSR engagement. The authors offered no explanation for other differences between these two studies.

Kolkailah et al. (2012) also examined CSR as a moderator in a study on customers' behavioural intentions in the Egyptian market and they found that customers were inclined to demonstrate a more positive attitude and behavioural intentions towards socially responsible companies. Although their findings revealed that 74.5% of respondents were actually aware of the CSR concept before taking the questionnaire, 65.3% of the respondents did not seem to understand the true meaning of CSR (Kolkailah et al. 2012). As mentioned by the authors, their respondents perceived CSR as a synonym for charity and that could be considered as a serious limitation of the research derived from the respondents' lack of understanding of the main phenomenon under investigation (Kolkailah et al. 2012). The reasons for this misperception unfortunately were not investigated.

CSR in the context of non-governmental organisations also attracted the attention of scholars as according to Jamali et al. (2011) innovation in the context of business–non-governmental organisation partnerships for CSR can be considered as critical ingredients to foster social alliance innovation.

Mediators In Jamali and Mirshak (2010), the authors explored the broader meaning of CSR and its role as a mediator in conflict zones and as part of the responsibilities expected from MNCs. Thus, firms can opt for various direct or indirect actions during a conflict situation from direct negotiations to third-party arbitration and conciliation and this could be seen as a part of their CSR initiatives (Jamali and Mirshak 2010). Jamali and Keshishian (2009) examined partnering relations between private and non-profit organisations in Lebanon in their CSR pursuits and found prevalence of a CSR approach that can be mostly qualified as altruistic with no strategic alignment to core business and business operations. Jamali (2008) examined the CSR initiatives of Lebanese and Syrian firms with a focus on stakeholders and found that companies prioritized their stakeholders such as employees, customers and shareholders based on instrumental considerations, but also paid, albeit limited, attention to silent stakeholders including the community and the environment as part of their CSR agenda. Jamali et al. (2009b) found that Lebanese Small and Medium-sized Enterprises' (hereinafter SMEs) CSR activities are characterised as non-systematic, non-structured and non-formalised. On the contrary, MNCs' CSR activities appear to be more structured and formalised with a conscious attempt at systematising CSR communications, reporting (Jamali et al. 2009b) and budgeting (Jamali 2010). Mandurah et al. (2012) explored Saudi Arabian firms' awareness of CSR, its role within their organisations, the extent of integration of CSR in their corporate policies and the nature of their CSR initiatives. Their results show that the surveyed managers are moderately confident that social goals are well integrated into their strategic objectives. Half of the respondents operate with an independently established CSR department, while for the rest, their CSR functions are part of the public relations or external affairs department. Most of their CSR activities are less formalized, and primarily oriented towards the local community in which the firm operates.

According to Jamali et al. (2009b), Jamali and Sidani (2008), Jamali (2007) and Jamali and Mirshak (2007), managers in Lebanon adhere to a voluntary, philanthropic type of CSR, with no evidence for economic, legal or ethical initiatives. Along with the high level of convergence regarding a philanthropic conception of CSR, for the SMEs managers CSR was characterized as an obligation parallel to the business rather than being integral to it (Jamali et al. 2009b). The SMEs managers equated CSR with philanthropy, as they considered it as a necessary activity independent of mainstream business transactions (Jamali et al. 2009b). The same study also uncovered that MNC managers give primacy to economic responsibility followed by the legal, ethical, and discretionary strands, precisely as defined by Carroll (1999). Predominating importance of the philanthropic nuances of CSR was also identified among the Saudi managers (Ali and Al-Aali 2012). A view different from the philanthropic dimensions of CSR was shared by a smaller group of respondents in the study of Jamali and Sidani (2008) who perceive CSR as a pragmatic means to protect the firm against erosion of financial benefits. Examined in a broader geographic scope (Lebanon, Syria and Jordan), the research identified significantly different results where CSR was described as a pragmatic and instrumental corporate policy with less importance of the philanthropic flavour of CSR. The variances of managerial attitude towards the phenomenon are driven by their moral judgment which played a partial mediating role in such relationships and determines the motivational attributions towards CSR (Hammad et al. 2014) but in the same time affected the specific form of CSR that will be implemented by the organisation (Soltani et al. 2015). With regard to moral judgement and religious ethics, Soltani et al. (2015) provided further insights on the impact of managers on organisational CSR practices in the context of Muslim-dominated countries and more specifically Iran, by identifying three different types of managerial mindset (called conformists, self-seeker and satisfier). According to their study, these three different mindsets have sought to serve managerial ends and short-term self-interests, but fall short of core values of Islamic ethics and CSR which consequently affected the outcome of organisational CSR commitment (Soltani et al. 2015).

Therefore, CSR in the region seems to be informal, philanthropic and at times pragmatic (especially in the case of MNCs). However, due to the significant associations of CSR with philanthropy, Jamali (2007) suggested that CSR in developing countries should be regarded as social voluntary responsibility, while the term corporate responsibility can be used for economic, legal, and ethical responsibilities.

Outcomes At organisational level of research, the literature is suggesting that systematic approach, measurement and reporting of CSR activity was not evident (Nejati and Ghasemi 2012). While organisations described what they do and provide information about their committed inputs, the outcomes of organisational CSR activities were not communicated (Jamali and Mirshak 2007), although the literature suggest that SMEs CSR activity was generally targeting local, intranational community issues, whilst MNCs CSR practices were oriented towards global, high visibility issues (Karam and Jamali, in press). Some authors such as Rettab et al. (2008), Brik et al. (2010) and Kolkailah et al. (2012) suggested that CSR leads to improved instrumental factors such as corporate reputation, market orientation, customer perceptions or employee commitment. At the same time, the literature suggested that driven by innovation, strategic partnerships were more readily capable to provide value creation as a result of their CSR practices (Jamali et al. 2011). It is important to note that the literature recognised the influence of managers, religion, their ethics and mind-set with regard to CSR outcome and perceived value (Soltani et al. 2015). While the organisational CSR literature on the Middle Eastern region identified a number of instrumental or normative pressures for CSR it did not expand on the discrepancies that arose (e.g. Rettab et al. 2008; Brik et al. 2010) or misconceptions identified (e.g. Kolkailah et al. 2012).

4.3 Individual Level of Analysis

The individual level of analysis in this literature review aims to locate the CSR movement amongst individual actors within the Middle Eastern context. It focuses on human actors and the characteristics of their decision-making. Only one publication was found (Selvik 2013) that examines CSR at the individual level of analysis. This dearth of research on the individual level of research is consistent with the findings of the systematic literature review conducted by Aguinis and Glavas (2012). Nevertheless, this one study sheds light on some important issues regarding CSR in the Middle Eastern region.

Predictors Commitment to religion and traditions is an important predictor of CSR engagement. As Selvik (2013) identified, individuals are mainly inclined to traditional forms of philanthropy that are closely aligned with the Islamic concept of *zakat* (religious giving to people in need, usually during Ramadan). Traditions, socio-political factors and the support of the private sector are considered to be important prerequisites to CSR engagement (Selvik 2013).

Moderators, mediators and outcomes Our attempt to identify publications that examine moderating or mediating factors for CSR at the individual level of analysis was not successful. We could not identify information for the outcome of these factors either (Table 4). However, the single paper identified did reinforce some of the outcomes already highlighted in the institutional level of analysis putting at the front and centre the impact of culture and religion.

Table 4 Summary of empirical research on corporate social responsibility (CSR) at individual level of analysis

Predictors	Moderators of CSR-outcomes relationship	Mediators of CSR-outcomes relationships	Outcomes
Traditions, socio-political factors and the support of the private sectors (Selvik 2013)	N/A	N/A	N/A

5 Conceptualisation of the Reviewed Literature

The picture of CSR in the Middle East is fuzzy, unclear and there are clearly substantial gaps in the extant literature. Considering that only 5 of the 29 articles included in the systematic review were focused on the institutional level of research and only 1 on the individual level of analysis, it is clear that the organisational level with 23 articles dominated research in the Middle Eastern context. The organisational level of research studies used existing Western conceptualisations of CSR (for example: Carroll 1999; Wood 2010; Lantos 2001) as exemplified by the studies presented (e.g. Kolkailah et al. 2012; Jamali and Mirshak 2007) and the vast majority were empirical and theory testing work. However, as noted by Frynas and Yamahaki (2016: 259), some of essential weaknesses of these frameworks are that they “lack the observed uniformities of social behaviour, social organisation, and social change, or are not sufficiently general to cover a range of different phenomena”. Similarly, researchers focusing on the institutional level of analysis used Western institutional theory as the conceptual foundation (e.g. Karam and Jamali 2013; Jamali and Neville 2011) revealing that CSR research on the Middle East was not only dominated by a single level of analysis (organisational) but it also focused on a limited range of theoretical frameworks from a Western perspective but inconsistently applied across levels of analysis. Both findings are consistent with the findings from Aguinis and Glavas (2012) meta-framework review.

The conceptualisation of current knowledge on CSR in the Middle East suggested here attempts to weave all three levels of analysis into a single, visual framework that aims to highlight the research gaps and to guide future research. This map summarizes the predictors, mediators, moderators and outcomes of CSR (as outlined in the summaries for each analytical section above) in the Middle Eastern socio-cultural context and standardises the language that can be used to further examine the CSR phenomenon regardless of the level of analysis or theoretical patterns followed in future research. The predictors summarised in Tables 2, 3, 4 are grouped in two categories—reactive (when organisations are driven to engage in CSR—mostly unwillingly) and proactive (when organisations choose to engage in CSR—mostly willingly). Reactive predictors may be used as coercive pressures to manipulate and direct change to a particular direction, while proactive predictors are more readily linked to the organisational desire to enhance its capabilities or improve employee commitment. Proactive reasons for CSR are predominantly instrumental (for example to improve organisational performance or market value) or normative (based on organisational values and principles). The outcomes of CSR actions and policy are seen as external or internal based on whether they affect the external socio-political environment or the internal organisational context. For example, external outcomes include improved corporate reputation, and enhanced market orientation (Brik et al. 2010) as well as customer perceptions (Kolkailah et al. 2012) while internal outcomes would include employee commitment (Rettab et al. 2008).

The mediator variables identified in our review (Table 3) shed some light on why and how CSR leads to certain outcomes. We identified that the external context and more precisely political conflicts have mediated the MNCs' CSR practices (Jamali and Mirshak 2010) and that could lead to instrumental or firm factors positive effects for the organisation. At the same time, the CSR-outcome relationship is mediated by the organisational approach and implications of CSR with regard to its strategic alignment with business operations (Mandurah et al. 2012; Jamali and Keshishian 2009) or systematic conduct (Jamali et al. 2009b). Managerial interpretations and perceptions of the phenomena are also regarded as mediators of this outcome. Here we have contrasting views as some managerial interpretations are related to the economic and instrumental views of the phenomenon (Jamali et al. 2009b; Jamali and Sidani 2008) whilst some other interpretations mainly from local organisations have a philanthropic nuance in their perception of CSR (Jamali et al. 2009b; Jamali and Sidani 2008; Jamali 2007; Jamali and Mirshak 2007). We assume that this difference could be driven by the impact of religious values which, as recognised by the literature (Hammad et al. 2014) is important with regard to managerial ethics and judgment (Soltani et al. 2015). We could not find similar information at institutional or individual level of analysis mainly due to lack of sources.

The moderators of the CSR-outcome relationship in Tables 2 and 3 could be classified as external (moderators that focus on the market), internal (moderators that focus on the firm resources), contextual (moderators that focus on the socio-political environment) and normative (moderators that focus on the groups of interest). As result of the mediators and moderators presented in Fig. 3, we observe intriguing outcomes of their impact with regard to the phenomenon of examination. We identified that the external, internal and normative moderators of the CSR-outcome relationship, such as customer perceptions, corporate reputation, employee commitment, leadership, control systems and mechanisms, as well as innovation and stakeholder influence could lead to improved instrumental outcomes. While contextual moderators such as the political environment or gender equality issues would result in externally oriented positive outcomes of this relationship. The role of the mediators is assumed to affect the variances of CSR practicing, especially with regard to managerial interpretations, ethics and ability for moral judgement. This relationship is visible with regard to the organisational implications and implementation of the phenomena, its compatibility with corporate strategy and objectives and the consequent outcomes presented through (lack of) reporting.

The resulting model is presented in Fig. 3 and includes the dichotomies of reactive and proactive predictors of CSR, internal and external outcomes of CSR, as well as the mediators and moderators that govern the CSR—outcomes relationship. This

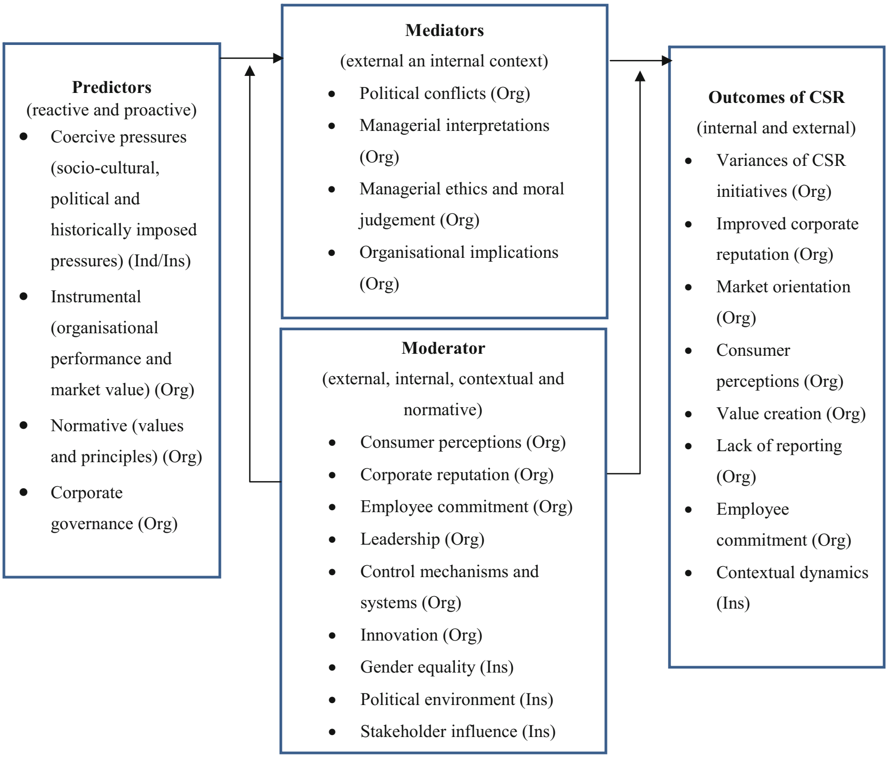

Fig. 3 Multilevel and multidisciplinary model of corporate social responsibility: predictors, mediators, moderators and outcomes. Note: *Ins* institutional, *Org* organisational, *Ind* individual level of analysis

model is clearly not exhaustive or conclusive but attempts to offer an integrated presentation of the current state of knowledge with regards to CSR in the Middle East; it incorporates all levels of analysis, theoretical frameworks and disciplinary specifications of the CSR field. Such integration could serve as a guiding framework to which more variables and more research can be added in the future.

6 Discussion and Knowledge Gaps

The literature review identified a number of glaring knowledge gaps in the CSR literature that focuses on the Middle East. The first and most obvious has been the lack of research on the individual level of analysis with only one paper focusing exclusively on the impact of the socio-cultural context and traditions on CSR. Moreover, the study suggests that religion may have significant importance for the regional development of the phenomenon; however, that is an issue that is not touched upon in the majority of the research identified, thus highlighting how inconclusive research is about the legitimacy of religion as an important factor in Middle Eastern CSR. The second research gap is linked to the lack of multilevel research that integrates these three separate conceptual streams. Both gaps confirm the weaknesses of CSR as identified by Aguinis and Glavas (2012) and thus are not specific to the Middle East context, yet this systematic literature review confirmed the earlier findings.

Furthermore, the research output suggests that CSR is still in a semi-institutionalised stage in the region where organisations are seeking to develop a collective understanding and common templates for strategizing and organizing CSR activities. The fact that the articles identified were empirical and theory-testing indicates that the CSR theory applied has been the Western conceptualisation of CSR and very little conceptual development has been done to explore what CSR means in the region. Considering the diversity and transformations the region has experienced in the recent years and the fact that actors involved in CSR development in the region are operating in a heterogeneous context it is surprising that the literature did not attempt to investigate whether there is something unique in the CSR practices within the region. The assumption of most of the existing research seems to be that there is nothing different about CSR in the Middle East although there are inklings that that may not be entirely true (e.g. the evocation of *zakat* by Selvik 2013). Thus the third tentative finding in that research on CSR in the Middle Eastern region appears to be colonized by Western conceptualisations of CSR before the researchers have investigated whether CSR could have divergent meaning and practice in various parts of the Middle Eastern region. Considering the richness and dynamism of the socio-economic, political and cultural aspects of the Middle Eastern environment, this position may be quite plausible. If a study of this nature would be conducted, one would probably expect results similar to the divergences of CSR practicing in the European context as identified by Matten and Moon (2008). That is an important gap that warrants more research.

A fourth finding was that CSR studies on the Middle East at institutional and individual level of analysis have been more focused on predictors, moderators and outcomes of CSR engagement rather than on mediators. Exceptions are organisational studies where we identified various mediators of the CSR-outcomes relationships such as managerial interpretations, ethics, moral judgment, political conflicts and organisational implications. This finding could indicate that the organisational level may act as a mediator mainly with the other two ontological levels as the predictors, moderators and outcomes. Tantalising as this possibility may be our knowledge of the reasons and motives for CSR activity in the region at individual and instrumental levels is severely limited and thus there can be conclusion with regards to the interactions between the three levels or the relationships within each level. Thus, there is a need for further research that can elucidate the processes and underlying mechanisms through which CSR actions and policies lead to particular outcomes at individual and institutional level of analysis.

Another important limitation of the CSR research on the Middle East is its scope. Half of the studies examine the phenomenon in the context of Lebanon, while the rest examine CSR in Egypt, UAE, Saudi Arabia and Syria (plus two studies with an unspecified scope). Whilst CSR in Lebanon has been extensively examined due to the prolific work of a prominent author in the field, the current scholarship has largely ignored CSR in other Middle Eastern countries. Even more worryingly, much of the research identified was mostly explanatory but applied limited indicators of reliability and validity, for example a number of studies mixed their sample data from local and foreign companies as well as foreign companies' subsidiaries. Considering that MNCs tend to implement the CSR agenda as it is developed by the context of their domestic market (Katsioloudes and Brodtkourb 2007), which may not necessarily comply with the social, cultural, economic and political environment of the host country, there are questions with regards to the relevance and validity of the results of this kind of research. This probably could explain the discrepancy between Brik et al.'s (2010) and Rettab et al.'s (2008) results. As a consequence of this limitation, we are lacking a comprehensive study that demonstrates insights of CSR as implemented by local, Middle Eastern (only) companies. Kolkailah et al. (2012) highlighted our lack of understanding when they collected data from respondents that were largely (65.3% in total) unaware of or misinformed about CSR.

Weak methodology is further underlined by issues of sampling; amongst the 29 reviewed studies there is a heavy focus on managers only and other stakeholder groups are insufficiently researched. Only one study focused on consumers (Kolkailah et al. 2012) in Egypt, another study discussed stakeholders' inclusion in CSR planning (Jamali 2008) in Lebanon and finally, a third study examined general stakeholders' preferences for CSR practice in the region, but the author does not clarify who these stakeholder groups are (Munro 2013). There is a need for more research along these lines within the context of a stakeholder approach or framework. Here, we suggest that researchers could consider other ways of classifying stakeholders (e.g., core vs. strategic vs. environmental) and differential weightings of stakeholder issues which could yield equally interesting insights. Research comparing the patterns of stakeholder management of local companies and international firms or subsidiaries could also be very informative and can help build momentum towards improved regional CSR practices. In the same time, more research illuminating the patterns of stakeholder management and CSR in the region could also be very much needed in view of the paucity of studies in such contexts. In the same time, researchers could conduct similar study but in local, Middle Eastern organisations which would shed more light into the CSR practicing in the region.

The findings of our literature review revealed the current status of CSR in the Middle East and provided a tentative answer to this work's original research question. This study set out to investigate the perception and practice of CSR in the Middle-East and revealed only one paper that looked at the specific social values of the region, and more precisely the religious concept of *Zakat* (Selvik 2013) with the remaining empirical work taking for granted a Western CSR perspective and values, and trying to apply them in the Middle Eastern context. However, a number of authors acknowledged that the Western concepts and approaches could be problematic within the Middle Eastern context (Nejati and

Ghasemi 2012; Katsioloudes and Brodtkourb 2007) however; such research would require more detailed examination of the regional specifications. Another study, conducted by Jamali and Neville (2011) suggests that *Zakat* could indeed have importance for the CSR concept development in the region and that indicates the need from further research in this direction.

The reviewed publications, suggest that CSR is largely perceived as philanthropy (e.g. Jamali et al. 2009b; Jamali and Sidani 2008; Jamali 2007; Jamali and Mirshak 2007) which could be interpreted as yet another sign of: 1) the relatively undeveloped understanding of CSR in the region; 2) the inability of the Western world to examine accurately the CSR phenomenon in the Middle Eastern context; or 3) the inability to communicate effectively the CSR message in the Middle Eastern region. The last two would imply that the regional and culture-specific factors were invisible from the authors' perspective and a sign of the Western world to expand its CSR views in a region which may operate under very different assumptions of business and their nature. There are some indications that a different kind of CSR may indeed exist in the region; however, the literature is at an embryonic stage and relies heavily on interpretivist approaches towards the phenomenon under examination to reach any meaningful conclusions.

7 Conclusion

Our review comes at a time when interest for CSR in the Middle East is accelerating rapidly and the region is hosting numerous conferences, research symposiums, workshops and organisations that aim to support expanding CSR activities in the region. We conducted an exploratory attempt to review the current state of the art for CSR in Middle East and to shed more light on how the phenomenon is perceived in the region. As a result, we synthesised and integrated the CSR literature into a single review that should provide a comprehensive picture of previous investigations in this field. However, the systematic literature review identified that the phenomenon of CSR is not well-investigated in the Middle East and the understanding of its specificity is limited. As a result of this review, we identified a number of important gaps—methodological, level, scope and sample of research, lack of consideration of socio-cultural specifications of the region that could serve as a catalyst of future research. Based on the knowledge gaps identified in the review, we offered a research agenda for the future focused on multilevel approach that aims to examine the micro-foundations and underpinning elements of CSR, for example foundations based on individual actions, reasoning, drivers and interactions related to the phenomena. Moreover, a combination of internal and external drivers may help to illuminate different sets of relationships that concern the societal context and internal organisational resources, the relationship between the societal context and the individual agency, and the relationship between contextual specifications and internal organisational resources. Our article will hopefully stimulate further research that will address the highlighted gaps and will consider different levels of analysis.

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Index

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