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**DO WE NEED SOCIAL REPORTS?
NEW CHALLENGE FOR
CORPORATE SOCIAL RESPONSIBILITY**

DO WE NEED SOCIAL REPORTS? NEW CHALLENGE FOR CORPORATE SOCIAL RESPONSIBILITY

Sylvia Jarosławska-Sobór, Ph.D.

Central Mining Institute, Poland

sjaroslawska@gig.eu

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Summary

Directive 2014/95/EU of the European Parliament and the Council entered into force on 1 January 2017, regards disclosure of non-financial and diversity information by certain large undertakings and groups. Its aim is to enhance the consistency and comparability of non-financial information disclosed throughout the Union. Large public-interest entities will be obligated to prepare a non-financial statement containing information relating to at least environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters.

What it means in practice? Whether we need a social reports? In this paper different aspects of new directives, its theoretical basement and functional range has been discussed. Opportunities and vulnerabilities, which directives sets on the path forward on CSR will be provided. On the case of designated Integrated Annual Report will be pointed elements, which can provides stakeholders with market information and influence on an image of the company.

Keywords: CSR, social report, non-financial information, image

Introduction

Contemporary institutions are expected above all to be innovative and to react fast to the needs arising in the environment. These characteristics to a large extent influence the evaluation of a company and they are formed mainly by non-material assets, which include knowledge, or brand. It is emphasized that in new economy sustainable competitive advantage results from the ability to manage and use these resources in a complex way (Teece, 2000). Understanding this problem and including social aspects, which cannot be measured with financial figures, in company strategy makes it possible to advance to a higher level of management and achieve a better effect (Kaplan & Norton, 2004). An example of such an activity is including the rules of Corporate Social Responsibility (CRS) in the strategy.

The contemporary view of CSR appeared in the 1950's with the publication of the book titled "Social Responsibility of the Businessman" by H. Bowen (Bowen, 1953), where the author explains the relations between the impact of business on the society and social values. Along with further research voices in the discussion of the motives for taking actions for the benefit of the society and the non-business environment appeared. They focused above all on the image-related issues. (Porter&Kramer, 2001; Davies et al.,2003). However, it is pointed out that relations between a CSR strategy and the image of a company in the global and local context have different dynamics resulting from specific social conditions and expectations (Popoli, 2015).

Formalization of the concept

Also the European Commission expressed its view in the practical and pragmatic dimension in the public debate on the responsibility of business. In 2001 the European Commission presented the document titled: Green Paper on Corporate Social Responsibility. The EU concept of CSR is based on the assumption that by applying the rules of social responsibility business environments can to a significant extent participate in solving the economic problems of the contemporary world, minimize the negative effects of the processes of globalization and contribute to a sustainable development of global economy (European Commission, 2001). As a result of the discussion concerning the Green Paper, another EU document appeared. It was titled "The Contribution of Business to Sustainable Development" addressed to

European institutions, Member States, social partners, business and consumer organizations. One of the last documents on this subject issued by the European Commission is the "Renewed European CSR strategy" published on October 25, 2011 (European Commission 2011). The document points out that social effects of the crisis had a negative impact on the trust of consumers and the level of trust in business. Another recent document is the directive on reporting non-financial data (European Commission, 2014).

Over time new CSR standards and instruments emerged. They concern the implementation of the rules of responsibility in daily business practice including the indicators, methods and tools for the evaluation, assessment and communication of CSR practices. The original goal of all these instruments was creating the foundations — the minimum level for CSR practices. They were supposed to encourage continuous development and improvement, creating more and more complex, individualized programmes and strategies. Currently, they help manage social responsibility proposing models of behaviour and methods of their implementation. This is accompanied by a significant diversification in the scope of areas and contents, as well as the level of documentation, formalization, possibilities of implementation and monitoring. Attempts to systematize CSR instruments were made also in order to deliver acceptable models and desired methods of conduct. Table number 1 shows the division of instruments depending on the characteristics and the area of activity they concern.

Information concerning the conducted activity conveyed to the environment by some entities serves the purpose of building credibility and transparency. Among others, social reports, or integrated reports, which contain contents of both social character and hard data (e.g. financial data) necessary for the assessment of a company's activity, play such a role. However, growth of Internet's importance and the development of interactive forms of communication have created new challenges also in the area of social communication. New terms such as CSR 2.0, combining the concept of network 2.0 and social responsibility have emerged (Sorensen&Peitersen, 2007). This form of CSR is characterized by various mechanisms of operation, among others, panels of various stakeholder groups and controlling and reporting on the influence on the society and the environment is one of its basic benefits (Visser, 2008). Social report by means of simple and unequivocal information can be an efficient tool of an organization's communication strategy and mature management of relations with stakeholders.

Table 1. Classification of social responsibility instruments

Kind	Chosen standards	Characteristic features/ basic assumptions
Rules and codes of conduct	UN Global Compact, Global Sullivan principles, CAUX rules, OECD guidelines for international companies	The goal of ventures was to formulate global standards which could serve as a measure of reference for behaviours in business. Most of the rules undergo informal, or formal social assessment. Some also take into consideration the elements of reporting (e.g. UN Global Compact, The Ethical Trading Initiative, or Global Sullivan principles).
Management systems and certification systems	ISO, including ISO 26000, EMAS (Eco-Management and Auditing Scheme), Social Accountability International, SA8000	Formalized management systems. They can concern the whole organization (e.g. ISO), or particular areas of activity, e.g. the environment (EMAS ISO 14000), workplace (np. SA8000, based on the values contained in the Convention of the International Labour Organization, Universal Declaration of Human Rights and Convention of the United Nations). ISO 26000 is an international norm in the area of social responsibility. It is not a technical norm but a set of guidelines ("Guidance on social responsibility") and it is not meant for certification. In Poland ISO 26000 norm was introduced in 2012. The norm characterized the main problem areas of social responsibility such as: 1. organizational governance, 2. human rights, 3. work relations, 4. protection of the natural environment, 5. fair market practices, 6. relations with consumers, 7. social engagement.
Assessment indicators used by investment agencies (Socially Responsible Investing SRI)	Stock market indicators in Poland: Respect Index of the Warsaw Stock Exchange	These are criteria used to create assessment indicators applied by investment funds. Particular funds have their own methods of assessment and verification. Individual investors can take advantage of global stock market indices (Dow Jones Sustainability Index, or FTSE4Good), or the Polish Respect Index. The index was launched on the Warsaw Stock Exchange in 2009 and is the first indicator of this kind in Central and Eastern Europe. It contains companies listed on the main market which satisfy requirements associated with organizational governance, informational governance and relations with investors and requirements concerning ESG factors (Environmental, Social and Governance).

Cont. table 1

Kind	Chosen standards	Characteristic features/ basic assumptions
Guidelines for reporting and communication	Global Reporting Initiative, Model LBG (London Benchmarking Group), AA1000 SES — Stakeholder Engagement Standard	They don't define the levels of responsibility that a company should achieve, but deliver methods, procedures of communication, conducting dialogue with the stakeholders and responding to their needs in relations to social, environmental and economic aspects of the functioning of a company. You have to pay for some of the standards (e.g. AA1000).

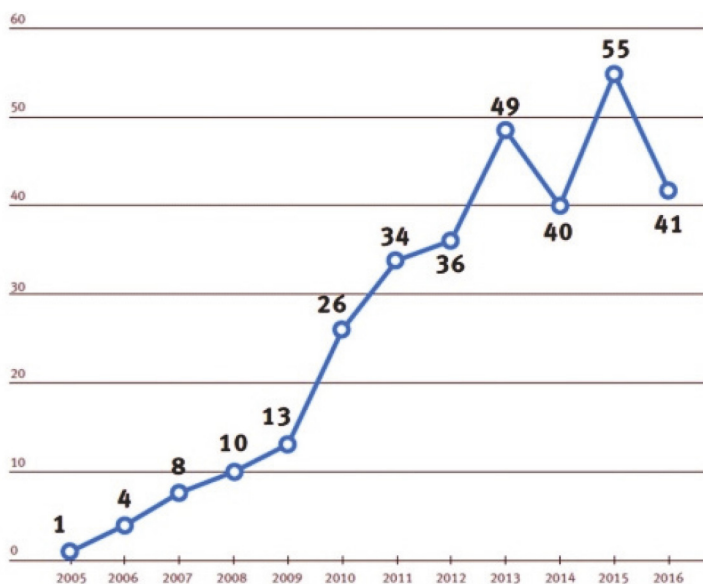
Source: own materials.

What is an integrated report? According to International Integrated Reporting Council integrated reporting is a process, which results in the cyclical communication of an organization through an integrated report. The integrated report shows the creation of value in time. Integrated report is a communication method and tool of an organization showing how its strategy, corporate governance and results in the context of the external environment enable it to create value in the short, medium and long-term perspective (IIRC, 2013). The guidelines concerning integrated reporting are a certain approach, rules and philosophy, but without a proposed set of indicators for reporting. The organization itself defines which issues are important for it from the perspective of its activity, choosing the appropriate indicators.

International research on social reporting conducted in 2015 by the consulting agency KPMG shows that 73% of the most important companies prepare social reports. 4,500 entities were surveyed: 100 key companies in each of 45 countries. A small growth over the past 3 years was recorded. At the same time it was emphasized that reporting duty should raise the level of this indicator to 90–95% of the biggest companies (Kaya, 2016). What was also emphasized was the quality and coherence of the published data (or lack thereof) with internal data and strategic assumptions (Thijssens et al. 2016). In Poland about 40 companies

regularly prepare social reports (Gazeta Wyborcza, 2017). Picture number 1 shows the growth of the number of published social reports in Poland over the past 10 years.

Picture 1. The number of social reports published in Poland



Source: CSRinfo.

Reporting non-financial data

What is supposed to be an instrument for the growth of popularity of social reporting is the new EU directive concerning the disclosure of non-financial data. Directive 2014/95/UE changing the Directive 2013/34/UE with regard to disclosure of non-financial information and information concerning diversity by some big companies and groups came into force on November 15, 2014. The basis for the preparation of the directive included:

I. 2013, two EU resolutions:

- Corporate social responsibility: accountable, transparent and responsible behaviour of companies and sustainable growth,

- Corporate social responsibility: looking after the interests of citizens and the road to sustainable economic revival supporting social inclusion.
- II. 2012, resolution, "The future we want", United Nations conference Rio+20, Brazil.

What has been recognized as the main goal is raising the transparency of information in the area of corporate social responsibility presented in activity reports (in form of a declaration), or in a separate report on environmental, social issues and the issues concerning respect for human rights, fighting corruption, raising the coherence and comparability of non-financial information published on the territory of the European Union.

What is non-financial data? The directive identifies the following as non-financial data:

- environmental issues, current and expected influence on the environment, health and safety, using renewable and non-renewable energy, emission of greenhouse gases, water consumption and air pollution,
- social and employee issues: sex equality rights, implementation of the basic conventions of the International Labour Organization, work conditions, social dialogue, respect for employees' right to obtain information and express opinion, rights of trade unions, health and safety at work, dialogue with local communities,
- respect for human rights, fighting corruption and bribery: preventing human rights violations, instruments applied to fight corruption and bribery.

It is estimated that on the scale of the European Union these regulations will concern about 6,000 entities, while in Poland they will affect about 300 Polish companies which are obliged to publish financial statements. Provisions of the law concern organizations satisfying two out of three following conditions:

- average annual employment exceeding 500 people
- balance sheet total exceeding EUR20 million, or

- net revenues from sales of goods and products exceeding EUR40 million for a financial year.

The directive doesn't concern the sector of small and medium enterprises (SME), however, it contains a provision saying that this shouldn't prevent Member States from imposing the duty of disclosure of non-financial data on units and groups other than those defined by the directive. At the same time the European Council called for the reduction of general regulatory burden for small and medium enterprises (SME's), while the "Europa 2020" strategy for intelligent and sustainable development supporting social inclusion is supposed to improve the business environment of SME's and promoting their internationalization.

The report publishing duty will already concern 2017, which means the number of integrated reports should grow substantially in 2018. The Directive also emphasized the importance of corporate reporting in the area of sustainable development and encourages units to consider the possibility of including information concerning sustainable development in their reporting cycles. The directive also allows the "comply or explain" approach, which means that when a unit doesn't apply any policies with regard any of the mentioned issues, the non-financial report gives a precise explanation justifying such a decision. Those who fail to prepare a declaration on non-financial data risk a financial penalty, or up to 2 years in prison.

What should a report contain?

1. short description of a unit's business model
2. description of policies applied by a unit to the given issues
3. the results of these policies
4. main risks associated with the above-mentioned issues, associated with the unit's operations, including commercial relations, products, or services, which may have a negative influence in these areas and the way of managing them
5. key non-financial indicators of results associated with a particular activity.

The legislator gives the reporting entities freedom in the area of the reporting standard. On June 26, 2017 the European Commission published

guidelines on reporting non-financial information (European Commission, 2017). Also the Ministry of Development has taken measures popularizing knowledge and standards in the area of non-financial reporting by publishing, among others, guidebooks (Ministry of Development, 2017).

Standard Global Reporting Initiative (GRI)

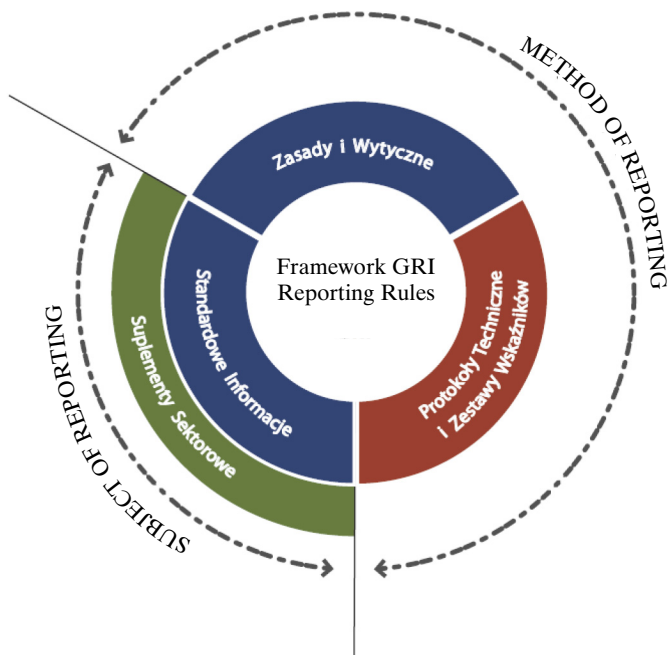
The most popular social reporting model is the standard defined by Global Reporting Initiative foundation established 20 years ago in Boston. 7,500 companies around the world use the GRI reporting model. Also on the Polish market over the past 5 years almost 80pc of the reporting entities chose the GRI standard. GRI guidelines contain general rules of communicating about the influence of business activity and particular indicators referring to particular parts of a report. The latest standard is marked as GRI G4 and pays much attention to defining in the process of dialogue with the stakeholders important aspects of chosen subjects for a particular company. These guidelines refer to international standards in the area of CSR and sustainable development, including OECD Guidelines for multinational companies, 10 Rules of the UN Global Compact and UN guidelines concerning business and human rights (GRI, 2016).

GRI report should consist of five parts and successively present the following elements:

1. Vision and strategy — presenting the vision of an organization in the future and the strategy for the coming years. Both elements should be prepared in the CSR context, which means taking into consideration their stakeholders and illustrating the approach of an organization to social, ethical and environmental issues.
2. Profile — that is, basic information about a company, markets on which it operates and the list of stakeholders associated with an organization.
3. Ownership structure and management — analysis taking into consideration the independence of the supervisory board, engagement of stakeholder in the activity of the company, presenting the system of management.

4. Index of the content associated with CSR.
5. CSR indicators — presenting particular indicators for elements mentioned in the list of contents.

Picture 2. Guidelines for GRI model reporting



Source: www.globalreporting.org

The formula for the assessment of non-financial data adopted in the standard can be defined by the following hierarchy:

An example of a reporting method together with the attributed indicators for a particular category is shown in table 2.

Picture 3. The assessment of social reporting on the activity of an organization,
according to GRI, own materials

category  aspect  indicator  area of additional information

Source: own materials.

Table 2. Global Reporting Initiative guidelines

Category	Aspect	MM indicator — content of the indicator
Environmental issues	Biodiversity	MM1 — area of land used for manufacturing, or mining activity, changed, destroyed, or reclaimed. MM2 — number and the share (percentage) of land identified as requiring biodiversity management plans with the consideration of criteria required by law.
Social Issues/ Employment practices and decent work	Relations between the employees and the management	MM4 — number of strike actions and work breaks exceeding one week.

Source: own materials.

What also serves the purpose of promoting social reporting is the Social Report contest organized by Forum Odpowiedzialnego Biznesu (Responsible Business Forum). A record-high number of 44 publications took part in the 11th edition of the contest in 2017. 40 reports came from companies, 2 from corporate foundations, one from a non-governmental organization and one from a public institution. Every report was assessed by a board of experts. Also, Internet users could vote for each report (FOB, 2017). Below, one of the reports submitted to this year's edition of the contest is analysed. In this article it is treated as a case study showing what market information reports can deliver to the stakeholders and how they influence the image of a company.

An integrated report of LW BOGDANKA



An integrated Report of the mining company LW BOGDANKA, as one of few integrated reports covering both financial and non-financial data, was analysed. The report also won the contest for the best non-financial and integrated report in Central Europe in 2016 — Deloitte Central European Sustainability Report Award, often called Green Frog Award (GFA). The jurors appreciated the report for strong combination of CSR areas with indicator data and a display of good understanding of the issue of human rights.

LW BOGDANKA is a mining company operating outside the territory of Upper-Silesian Coal Basin, in the region of the Lublin basin. The report contains the most important data about the company, namely:

- basic stock market data,
- business model,
- financial data, data concerning production and sales,
- consolidated financial report of LW BOGDANKA capital group,
- strategy of development,
- model of activity in the supply chain,

- account of achieved strategic goals including: striving to raise the level of safety of employees, guaranteeing the safety of local natural environment, guaranteeing the safety and supporting the development of the local community, transparent and appropriate management practices.

Integrated model of building company value is defined in form of a methodological analysis of 6 kinds of capital, proposed by International Integrated Framework. Among these kinds of capital there are:

1. financial capital,
2. manufacturing capital (operational),
3. human capital,
4. intellectual capital,
5. social capital,
6. natural capital.

All of the above-mentioned positions have appropriate indicators ascribed to them and are described also in relation to:

- key figures and transfers (e.g. PLN182m net profit in relation to financial capital, or 2.9 million commercially used mining waste in relation to natural capital),
- dialogue with stakeholders (e.g. the analysis of complaints with regard to manufacturing capital, or a meeting of the Settlement Team concerning mining damages, within social capital),
- risk management (e.g. acquiring employees with regard to human capital, or technological risks in relation to intellectual capital).

Table number 3 shows which components and activities have been attributed in the report to particular kinds of capital within the integrated value-building model.

Table 3. Value-building model of the capital group LW BOGDANKA

Value-building model of the capital group LW BOGDANKA	
Kind of capital	Components and the character of taken actions
FINANCIAL	Structure of capital ownership Dividend policy Corporate governance Internal control and risk management Financial results
MANUFACTURING (OPERATIONAL)	Effective business model Infrastructure and investments Integrated management system Management and CSR Integrated corporate risk management system
HUMAN	Social dialogue as an element of corporate governance Health and Safety management Ethics as an element of organizational culture
INTELLECTUAL	Technological innovations Cooperation with the world of science Branch initiatives
SOCIAL	Relations with the local community Economic impact of the mine Involvement in community life Mining damages
NATURAL	Environmental management Biosphere Water management Waste management Consumption of materials and resources Energy and emissions

Source: own materials.

Indicators covering the area of social responsibility, which have been included in the report of LW BOGDANKA are above all:

- dialogue with investors,
- social dialogue,

- participation in branch organizations and initiatives,
- social impact (in which the fact that LW Bogdanka is the only employer from the mining sector in the region has been recognized as the basis),
- involvement in community life,
- mining damages.

The full report has been published on the website of the miner: www.lw.com.pl.

Conclusions

Do we need social reports? In the discussion there have been many voices that in an overregulated economic environment we don't really need further norms and directives to build the value of organizations. However, there is no doubt that if there were no legal duty, many companies would never decide to publish data concerning the character of conducted activity. It is because in such reports we can find such sensitive data as the number of employees on civil law contracts, diversity in management bodies, number of people on parental leaves, number of departures from work, differences in the salaries paid to men and women, or expenses associated with the protection of the environment. In combination with the analysis of the business model this is precious information for the market, for potential investors and finally potential employees of a company. Within a company itself, a cyclical analysis of the data published in integrated reports makes it possible to improve the processes within the organization and monitoring progress in achieving the assumed goals, it allows building better relations with the employees and achieving real competitive advantage. What counts more and more on the market, more than the price and quality of products alone, is the method of production and offering of these products.

Looking at well-prepared sustainable development reports you can see whether a company has noticed the social and environmental risks and how the company is managing these risks. This in turn will be a precious contribution to building a responsible supply chain. Social reports are a detailed source of data about the influence of a company on people and the

environment, as well as a very good tool of communication between the company and the environment. That's why the directive, even though as another EU regulation it is treated as a necessary evil, eventually may bring more benefit than harm. As the legislators themselves say: *giving investors access to non-financial data is an important step on the path to creating market and political incentive rewarding companies investing in efficiency, in course of the plan of action for a more resource-effective Europe.* (European Commission, 2014).

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Sylvia Jarosławska-Sobór, Ph.D., Central Mining Institute, Poland — spokesperson of the Central Mining Institute. Accomplished PR and communication professional with many years practical experience. In her scientific work focused on social aspects of business operation. The author of 2 books in this scope, co-author of 3 monographies and several papers and conference presentations. Her PhD has been awarded by the Polish Ministry of Family, Labour and Social Policy. Member of Silesian Centre for Business Ethic and Sustainable Development. Member of programming and monitoring sustainable development team of Observatory of Urban and Metropolitan Processes. Feature writer in a trade press. Academic teacher.



Institute of Aviation
Scientific Publishers
al. Krakowska 110/114
02-256 Warsaw, Poland
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