

CORPORATE SOCIAL RESPONSIBILITY AND EVIDENCE IN ANNUAL FINANCIAL REPORTING IN ALBANIA*

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ABSTRACT

Corporate social responsibility (CSR) has been approached in the accounting theory for over three decades. Furthermore, financially successful companies are reporting the environmental and social issues in their annual financial statements, making them more accountable towards different stakeholder groups. The purpose of our paper is to analyze the current corporate social reporting practices and to identify the type of information disclosed in annual report in Albania. This analysis is focused on the CSR of the commercial banks operating in Albania carrying out a comparative survey. Furthermore, the annual financial reports are analyzed and compared in order to highlight the disclosure of CSR. This research presents the main findings through the content analysis of financial reports as well through the presentation of examples on social disclosures.

Keywords: Corporate Social Responsibility, Guidelines and Rules on CSR, Annual Reporting, Banking System in Albania

Jel Classification: M41, M49


KURUMSAL SOSYAL SORUMLULUK VE ARNAVUTLUK'TAKİ YILLIK FİNANSAL RAPORLAMADAN KANITLAR


ÖZ

Kurumsal sosyal sorumluluk (KSS) muhasebe teorisinde otuz yılı aşkın bir süredir ele alınmıştır. Ayrıca, finansal olarak başarılı şirketlerin, çevresel ve sosyal hususları yıllık finansal tablolarında raporlaması, onları farklı paydaş gruplarına karşı daha hesap verebilir olmalarını sağlamıştır. Makalemizin amacı, mevcut kurumsal sosyal

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raporlama uygulamalarını analiz etmek ve Arnavutluk'taki yıllık raporda açıklanan bilgilerin türünü belirlemektir. Bu analiz, karşılaştırmalı bir anket yürüterek Arnavutluk'ta faaliyet gösteren ticari bankaların KSS'sine odaklanmıştır. Ayrıca, yıllık finansal raporlar incelenmiş ve KSS açıklamaları belirlenmek üzere karşılaştırılmıştır. Bu araştırma, temel bulguları, finansal raporların içerik analizi yoluyla ve de sosyal açıklamalara ilişkin örneklerle sunmaktadır.

Anahtar Kelimeler: Kurumsal Sosyal Sorumluluk, KSS Rehberleri ve Kuralları, Yıllık Raporlama, Arnavutluk'ta Bankacılık Sistemi

Jel Sınıflandırması: M41, M49

1. INTRODUCTION

Corporate social responsibility (CSR) is embraced now days and applied in the business aiming to assess their impact in society. In a study conducted from OSCE- Albania& Canadian Embassy are summarized the main steps regarding engagement of Albanian companies in CSR. First of all is established the local network of United Nations Global Impact (UNGCN) in 2005. At the beginning 38 companies expressed their interest to commit the ten Universal Principles in the areas of human rights, labor, environment and anti-corruption. Companies and organizations are asked to apply those principles in their strategies, operations and management and to periodically publish a progress report. Furthermore, rules and guidance's on how CSR functions are designed respecting the policies of UNGN in 2011. The companies have embraced the corporate social responsibility stressing their willing to serve the community. In order to optimize corporate environmental and economic performance and achieve sustainable business challenges the responsibility against society and environment should be fulfilled.

The aim of this paper is to analyze the current corporate social reporting practices and to identify the type of information disclosed in annual report in Albania. This analysis is focused on the CSR of the commercial banks operating in the Albania carrying out a comparative survey.

2. LITERATURE REVIEW ON CSR REPORTING

Corporate Social Responsibility is a dynamic concept addressing business responsibilities and reflecting the company's policies and political system within the country. On the context of our paper we highlight two definitions trying to explain the meaning of CSR.

The first definition is taken from International Labor Organization, in which is emphasized the responsibilities of the enterprises towards the actors that impact their existence: "Corporate Social responsibility (CSR) is a way in which enterprise give consideration to the impact of their operations on

society and affirm their principles and values both in their own internal methods and processes and in their interaction with other actors. CSR is a voluntary, enterprise-driven initiative and refers to activities that are considered to exceed compliance with the law”.

The second definition, at the core of CSR is clearly articulated and communicated policies and practices of corporation that reflect business responsibility (Matten and Moon 2008).

On the framework of CSR, attempts are made on designing the appropriate guidelines. Furthermore, accounting directions are emerged such as Social responsibility accounting, environmental cost accounting, and social accounting. Each of these accounting concepts is oriented in providing information to the stakeholders of a company. The debate on the information that accounting provides to the users is that the laws and regulations of traditional accounting is insufficient regarding the social and environment impact of the company. The CSR accounting is a process used to identify, measure and present the state of CSR risk management and activities related to the improvement of CSR performance in monetary terms based on financial statements so that information users can make assessment and decisions while having an awareness of phenomena related to corporate CSR issues as a risk (R-BEC007:CSR accounting principles). The role of accounting reporting is to provide the information to users so they can make sound decisions. In doing so, it requires the measurement of all the activities that the corporate has to deal while its main aim is to maximize the profit. On the other hand, the laws and regulations on accounting requires for disclosure is insufficient not assessing the social, economic and environment impact of companies.

The reporting of CSR activities has been increased during the last decades. At the beginning, there were only a few companies preparing these reports and a very limited number of people able to read and understand them. CSR reporting has been classified in three stages (Tschopp 2012).

1) First stage (during years 1970-1980): During this stage the CSR reporting wasn't connected with the company's financial performance. The reporting was quite weak, mainly related with the public relations and the company's marketing. The reports were considered as personal and were not very linked with CSR (Marlin, J.T., Marlin, A.T. 2003).

2) Second stage (end of 1980 - 1990): In this time frame the CSR reporting took high improving steps toward its actual reporting levels. During this time the CSR reporting was focused on many interested parties/groups such as the general public, employees, investors, clients, suppliers, government etc. The CSR reports started to include the auditor's opinion over the Corporate Social and Environmental Responsibility.

3) Third stage (2000- currently): This is the most important stage of the CSR reporting development as except to the auditor's certification the CSR reporting is also certified from agencies specialized for the social and environmental standards.

In the eyes of such standards and based on the facts that the certifying companies are worried to keep their good name, the behavior of the enterprises against the reporting of CSR has become very proactive in adding value to what they report.

Based on the global survey undertaken during the year 2004 from ACCA (Association of Chartered Certified Accountants) resulted that the number of the companies reporting CSR increased from 100 during 1993 to 1500 during the year 2003. Another study of the year 2003 over 100 biggest companies undertaken from the CSR network found that approximately half of these companies had published a CSR report.

Increasing expectations to retrieve qualitative information over CSR has brought as result the need for CSR reporting in a standardized manner, based on general accepted reporting standards. In response to different behavior codes, SAI (Social Accountability International) has developed a standard which must be followed under the working conditions offered from the enterprise. In the same time, it has been drafted a system through which every company has the opportunity to independently verify the compliance with the requirements of the IAS. Furthermore, the Global Reporting Initiative has defined regulations which are generally accepted and used worldwide which define the principles and the indicators that the enterprises may use to report its economic, environmental and social performance.

One of the most well-known global organizations in the field of standardization and quality ISO has developed an International Standard which must be used a guideline for CSR reporting, Standard ISO 26000: 2010. The standard was initially published on 2010 after 5 years of negotiations and discussing between many interested groups from worldwide. Many representatives from interested parties took part in the drafting and developing of this standard, factor which means that this standard has been largely consensually agreed.

The Standard ISO 26000; 2010 has given a value added to all the CSR initiatives through securing harmonized guidelines to be used in the entire globe. This standard might be used in all kind of organizations, public or private, listed or not listed, national or multinational companies, being in developed countries or in the emerging markets.

3. METHODOLOGY

This paper is focused on the CSR policy/activities undertaken from commercial banks operating in the Albania analyzing the financial reporting of these companies.

This research tends to explore the internal and external dimensions of the Corporate Social Responsibility in the Commercial Banks operation in the Albanian Financial Market. Based on the general literature and previous experiences, a questionnaire was prepared and distributed to banks employees.

We raised six hypothesis:

First hypothesis: Community problems

If the secondary bank operating in the Albanian market, would have been aware of the community problems than its Social Responsibility would grow.

Second hypothesis: Future involvements in CSR activities

The bank's CSR would grow, if the bank would increase its involvement in social and environmental activities.

Third hypothesis: Bank's structure

If the Bank has a financing structure compounded from foreign capital, than the Bank's CSR would grow.

Fourth hypothesis: Experience

If a bank operates in the market for a longer period, than the bank's CSR would grow.

Fifth hypothesis: Information

If the banks employees would inform their managers regarding their activity related with CSR, than the bank's CSR would grow.

Sixth hypothesis: Number of employees

The banks' CSR will grow in case the number of the employees will increase.

4. RESULTS ON RESEARCH

4.1. Data of Survey Analysis

The following Table 1 refers information regarding the variables included in the model assessed with SPSS21.

Table 1. Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
p_16E	1.073	.648	2.742	1	.098	2.923
p_26N	1.034	.475	4.746	1	.029	2.814
p_3Ci	.162	.253	.409	1	.522	1.175
Step 1 ^a p_1Sa	-.502	.694	.522	1	.470	.605
p_17E	-.530	.498	1.134	1	.287	.589
p_2Sa	.940	.315	8.870	1	.003	2.559
Constant	-4.229	2.523	2.810	1	.094	.015

a. Variable(s) entered on step 1: p_16E, p_26N, p_3Ci, p_1Sa, p_17E, p_2Sa.

The abovementioned model, in association with the values of the independent variables' coefficients, would result as per the following equation:

$$P(psk) = \frac{1}{1 + e^{-(1.073prob_{kom} + 1.034pj_{akt} + 0.162struk - 0.502eksp - 0.530info + 0.940nr_{pun})}}$$

The analysis reveals that the CSR is relatively new as concept and oriented towards the company image in the market. Based on the regression model in a way that a bank in Albania to be Socially Responsible (to be engaged in CSR activities), it should be informed over the problems faced from the community. If the bank is aware of the problems faced from the community, then it will have an approving approach toward its CSR behavior.

As expected, the greater the number of the banks' employees, the bigger the approach of the bank toward the CSR activities. Such a relationship may explain the fact why banks with bigger number of employees carry out more CSR activities and initiatives.

On the other hand, a very important conclusion is that the banks CSR doesn't depend from its financing structure, meaning that there are no differences between the banks owned from foreign shareholders and banks owned from Albanian citizens.

In the same logic it has been proved that, the number of years since its establishment it's not an important factor for banks carrying out CSR activities. The banks experience in the market it is not necessarily correlated with its CSR approach.

CSR in commercial banks operating in Albania doesn't depend on the information provided from the employees to their managers.

4.2. Annual Reports Disclosure Analysis

Financial reporting in Albania is based on the Law no. 9228, dated 29.04.2004 "On Accounting and Financial" which sanctions National Accounting Council (NAS) and International Accounting Standards (IAS) as well International financial reporting Standards (IFRS), as mandatory for implementation by the respective entities. The bank system in Albania comprises 90% of the financial systems requiring not only a reliable reporting system on assets and liabilities but as well risk assessment reports. The law on accounting specifies that big companies including banks should report according to the IAS and IFRS, while the other entities should follow the national accounting standards. The main reports include balance sheets, profit and loss accounts, cash flow statement, and notes to accounting, accounting policies and audit report.

Promotion of good practices on CSR has been in focus of policies developed in Albania since 2005 and the local network of United Nations Global Impact (UNGCI) has been established. Three main agencies are engaged in designation and development of CSR policies. Ministry on labor affairs, ministry on environment issues, and Ministry of economy during the recent years, have promoted and applied the legislation on CSR. Albania was a member state of ILO from 1920 to 1967. Shifting to democratic regime in 1990, Albania became member in 1991, and right now the country has ratified 53 ILO International Labour Standards of which 48 are into force, including the eight fundamental Conventions. Companies in Albania should respect the laws on environment moreover, projects with direct impact in environment has to apply for the environmental permit in the ministry responsible for environment issues. All the companies has to report at the beginning of the project for the investments in environment that will reduce the negative impact in environment, and the agency responsible for monitoring and evaluation of the impact has to take the measure in case when the investment are not performed. In case of failure and disability to meet the rules, the companies would not have the opportunity to recover the license affecting in the main objective of the firm to increase the value in unlimited time. Regarding the reporting of CSR activities, the companies are concerned about the information on training staff, environment and community. The information can be retrieved in the company's website and no rules or guidance is available for the formulation of these reports. In more specific the data are as following:

1. Staff. Albanian companies apply the code, signs individual contracts or collective contracts by syndicates. Training or workshops are offered for the workers. Moreover, health insurance are offered for the employees.

2. Environment. The heavy industry enterprises have to apply for the environment permit, as well to conduct studies on environment degradation and development plans on the region. The project has to be discussed in public consultation with the stakeholders.

3. Community. The CSR activities consists on charities, infrastructures investments, children activities as well open discussions on future projects.

In this study we will address the annual reporting of banking system in Albania. Through the desk analysis method we detect the deficiencies and recommend for changes in the future.

The reporting in banks in Albania is done in accordance with International Financial Reporting Standards and in accordance with the Law 990, dated 14 April 2008, “On Enterprises and Commercial Companies”. Statement of financial position, statement of profit or loss, statement of changes in equity and statement of cash flows and audit report are mandatory for reporting according to the accounting law in Albania. When it comes to non-financial information regarding the social, economic and environment impact or CSR activities, the existing law does not require formal reporting. In our study we attempt to make evidence of the lack of the appropriate regulations on CSR reporting and make recommendations on what should be done taking into considerations the CSR accounting guidelines. Detailed report on labor and human rights, environment costs, nations and charities fulfill the needs for information on CSR activities of a company. In addition, providing accounting information that is reliable and consistent with the intended purpose, a system should be created, dividing the accounting information related to business activities and accounting information related to CSR activities (Report, R-BEC007). The law on accounting has been revised recently, and a new law on accounting has been designed and after public consultation, will enter into force in the year 2018. The situation of a company will be reported including a non-financial report where the impact of company’s activities related to environment, social issues and employment, respect of human rights, anticorruption will be highlighted. Considering the fact that changes are to be taken place, we recommend that detailed report on CSR activities have to be considered.

5. CONCLUSION

CSR is a relatively new concept with a limited use in Albanian companies. National policies designed in recent years taking into account the EU legislation, requires that CSR practices to be considered. On the other hand, the decision making on CSR is divided according the responsible institutions, where each one respect the own strategies. The laws and regulations in power enforce the respect of labor rights, reducing of negative impact in environment, and public consultation on project with negative impact in society. Companies with negative impact on environment, report the CSR

activities where are concluded donation, community involvement in the projects as well investments for environment projects in their business websites. Apart from the regulations on power, some of drivers force that effect the CSR practices have been revealed in this study. The data analysis concluded that community should raise the issues and discuss them with the banks. The size of a bank considering the number of employers increases the CSR activities and initiatives. On the other hand, the domestic banks have the same attitude towards CSR, compared to the banks owned from foreign shareholders. The same with the experience in the market, despite the number of years, the banks have a positive approach towards CSR. As well the banks in Albania don't depend on the information provided from the employees to their managers.

The paper concludes that it is of greater importance that the companies should report its CSR activities through specific annually CSR reports either included in the annual financial statements of the companies/banks or as separate reports introducing and disclosing the CSR of the financial institution.

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AUTHORS' DECLARATION

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