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FINANCIAL REPORTING AS THE INSTRUMENT PRESENTING ENTITIES' RESPONSIBILITY FOR THEIR ECONOMIC AND SOCIAL PERFORMANCE

Abstract: Economic entities, through their impact on the surrounding environment, co-create the reality and influence both our future and that of the generations to come. Therefore it is of crucial importance to present an entity performance not only in the financial perspective, but also from the position of its impact on environment and the responsibility for the actions taken. Bearing in mind the fact that financial reporting is the most commonly applied form of financial performance presentation used by entities, the objective of the hereby paper is to analyse possibilities for preparing a single, integrated financial statement of both retro- and prospective character and covering information of financial and non-financial nature and also referring to entities' social responsibility for their performance.

Keywords: financial reporting, sustainable development, integrated reporting.

1. Introduction

Development represents one of the crucial objectives followed by economic entities. They exert impact on their immediate environment by the activities performed. Therefore, it can be stated that they co-create the surrounding reality. As the result of undertaken operations economic entities become responsible not only for their current accomplishments, but also, and what seems to be more important, for influencing the future. For this reason the problem of an entity performance presentation is of vital significance in order to illustrate the results of entities business activities not only in their financial perspective, but also from the position of their impact on the surrounding environment and their responsibility for the underlying actions in a comprehensive and transparent way for the purposes of all stakeholders associated with a particular entity, as well as the remaining participants of the global community.

Financial statements are the most important and the most commonly used forms of documents generated by an accounting system. They constitute the basic source of information about the financial situation at the end of every reporting period, and also about the accomplishments and results of activities a given economic entity was involved in the period reported. Regulations covering the rules underlying financial statements preparation are based on accounting theory and practice achievements, have been historically developed and determined by social conditions. Owing to their form and nature financial statements do not include information about a given entity impact of its environment.

Therefore attaching environmental, social, ethical reports, as well as information referring to contacts with different groups of stakeholders to entities' financial statements, was initiated. At the end of the 20th century a growing number of entities, apart from financial reporting, were also publishing environmental and social reports. However, the running of two systems of external reporting (financial and social responsibility) turned out to be expensive and inconvenient.

The objective of the hereby paper is the analysis of possibilities to prepare one, integrated financial statement of both retro- and prospective character, including information of financial and non-financial nature and also referring to entities' social responsibility for their performance.

The content of the study has been based on the review of both Polish and foreign reference sources, as well as the author's own considerations based on scientific and practical background.

2. Contemporary financial reporting and its modification directions

Since 2001, the two largest global institutions responsible for accounting standards development, i.e. the European International Accounting Standards Board (IASB) and the American Financial Accounting Standards Board (FASB), at first separately and since 2002 jointly, have been working on a financial reporting model. The efforts undertaken within the framework of convergence processes, covering solutions presented in the American standards (US GAAP) and International Financial Reporting Standards (IFRS), aimed at developing uniform, commonly acceptable, global accounting standards. On 29th May 2008 IASB and FASB published the jointly prepared proposal entitled: "Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information" [*Preliminary Views*... 2008]. Both institutions declared their support for the establishment of common, comprehensive, transparent and consistent conceptual framework to be used in financial reporting, considering market transformations, changes in enterprises and business environment which have been occurring since the existing concept was developed and also in order to prepare a uniform, single standard-setting document for global use.

The adopted approach is focused on extending, among others, the usefulness and credibility of information presented in financial statements. Paradoxically, the global financial crisis 2008–2009 delayed work on the common conceptual framework for financial reporting.

R.M. Trueblood [1973, p. 111], on the basis of research conducted in the U.S.A. among companies and other institutions regarding financial reporting objectives, concluded that "the objective of financial statements is to serve primarily those users who rely on financial settlements as their principal source of information about enterprises economic activities [...]. An objective of financial statements is to provide information useful to investors and creditors for predicting, evaluating and comparing."

The objective of contemporary financial statements[1] does not, in fact, differ from the one identified by entities in the U.S.A. in 1973. The objective of financial reporting suggested in the "Conceptual framework" [*Preliminary Views*... 2008] can be divided into:

– the general objective of financial reporting – providing financial information about an entity which is useful for the existing and potential capital investors, creditors and other loan holders in their decision-making process within their scope of competencies,
– components of the general objective:

1) usefulness of information for the assessment of future profit generating capacity,

2) usefulness of information for the assessment of the Board's performance of its fiduciary function.

However, having considered the needs of global reporting information users regarding information usefulness while undertaking economic decisions, analyzing alternative solutions and selecting the most favourable ones in certain conditions, and also with reference to reporting information comparability indispensable e.g. in the process of benchmarking, the financial statements prepared in accordance with the functioning formulas and standards do not provide such information.

Having focused on the needs represented by the broad spectrum of the reported information stakeholders, IASB and FASB prepared the draft of a new financial statement form which represents a different, from the existing one, approach to an entity. It is no longer an entire entity, but its particular types of activities are supposed to present a cross-section of information with reference to particular components of a financial statement. The suggested changes, according to the authors of this proposal, are aimed at the implementation of the fundamental financial reporting objective, i.e. offer capital providers, mainly investors, the necessary information to assess due amounts, time horizon as well as the level of future cash flow uncertainty.

The solutions worked out by IASB and FASB have been defined as revolutionary in the environment of accounting professionals. Nevertheless, financial statements

[1] The term "contemporary financial statement" used in the paper refers to a financial report prepared in accordance with standards suggested by UASB and FASB.

have still been lacking a lot of significant information, vital for the decision making process. The most important issues have been identified below:

1) financial statements, in knowledge-based economy, do not offer information about intangible factors, such as e.g. intellectual capital, internal corporate value, customer relations, assets related to location, market assets, etc.,

2) controversial method for an entity's assets valuation and their origins mainly based on historical value and resulting in the growing dissonance between assets balance sheet and market value,

3) excessively creative approach to the presentation of different components included in financial statements,

4) the absence of information consistency presented in particular financial statement components, as well as insufficient data disaggregation,

5) insufficient awareness of individuals responsible for accounting policy development regarding the consequences of solutions accepted,

6) the absence of possibility to specify, based on the data included in financial statements, all vital factors referring to a given entity functioning, e.g. such as factors generating its value, strategy, plans, main risk factors.

Additionally, in the opinion of the author, an investor as the capital owner is a very important user of financial statements, however, not the only one. Enterprises, as the creators of financial statements, functioning at the global market should respect the needs of all interested parties and refer to them in a responsible manner.

3. The reporting of entities' social responsibility

The role of social responsibility keeps growing along with the more extensive and significant influence of entities' business operations on the direction of civilization development. Entities have to face the consequences for their impact on the future of the world. The analysis of entities' responsibility for their performance only in the context of their responsibility towards investors or owners is absolutely insufficient. Currently, in the times of economic processes globalization, the operations performed by enterprises exert impact on social or economic situation of other countries worldwide. More and more frequently, the global community expects entities to function in an ethical manner and to be held morally accountable for their actions.

Reference sources as well as the global practice offer different definitions of enterprise responsibility referred to as Corporate Social Responsibility (CSR), Corporate Responsibility (CR), Business Responsibility, Corporate Sustainability, Corporate Citizenship (CC), Global Business Citizenship, Corporate Community Engagement, Community Relations [Jaworska 2011, p. 574]. The European Commission defines CRS as the concept of voluntary taking into account social and environment protection issues by an enterprise in its business operations and contacts with stakeholders [Communication from the Commission... 2006, p. 2]. On the one hand, it is emphasized that such initiative, on the part of an entity, is not obligatory and, on the other, significant emphasis is assigned to an entity's responsibility for social and environmental effects resulting from its performance impact on the environment.

Corporate social responsibility is related to sustainable development concept which was developed in the 70s of the 20th century. In line with this concept business operations performed by an entity cannot result in life quality deterioration of current and future generations. However, in order to assess an entity's impact on its environment it is vital to obtain credible and useful information in this matter, included in adequate reports or statements and presenting three areas (dimensions): economic, environmental and social aspects.

In order to prepare the transparent and unambiguous reporting system illustrating sustainable development issues the Global Reporting Initiative (GRI)[2] was appointed in the U.S.A. in 1997. Currently this organization is cooperating with different groups of stakeholders and experts among whom there are auditors, accountants, consulting and training companies, enterprises, universities, public benefit organizations, investors, trade unions and public institutions [Paszkiewicz, Szadziewska 2011, p. 631]. GRI's mission is to develop uniform guidelines to be applied in reporting about economic, environmental and social results worldwide in the way which allows for making comparisons [*Raportowanie społeczne*...]. The suggested standard can be applied by all organizations independently of their size, sector of operations and location. GRI's guidelines are followed by enterprises, non-governmental organizations and government agencies. GRI does not impose the form of sustainable development report and the suggested guidelines are subject to tests and ongoing improvements. GRI emphasizes that sustainable development reporting represents the practice of measuring, disclosing and facing responsibility for organizational effects resulting from the activities performed for the benefit of sustainable development [*Wytyczne do raportowania*..., p. 42]. Reports can be presented in the form of a printed publication, a website or constitute a component of an annual report. However, attention is paid to the fact that regardless of the chosen form entities should present due content in three basic groups:

1) strategy and profile,
2) approach to management,
3) performance indicators.

At first, in line with GRI guidelines underlying sustainable development issues reporting, an entity issuing a report should identify and define its stakeholders,[3] as well as explain how it responds to their expectations. The first part of a report should present its approach to sustainable development issues by e.g. describing its influence

[2] More in: www.globalreporting.org.

[3] This definition covers entities and natural persons whose rights, resulting from regulations and international conventions, ensure the possibility of their submitting claims against organizations [*Wytyczne do raportowania*..., p. 11].

on this development, discussing opportunities and threats faced by an entity, presenting its profile data, the report's scope and coverage, information about the supervision structure, participation in external initiatives and issues referring to its stakeholders' involvement.

The second part of information referring to management approach takes the form of a brief description regarding the solution adopted by a particular unit with reference to aspects specified for each category of indicators presented in the third part.

The indicators included in the third part of a report are divided into economic, environmental and social categories (Table 1).

Table 1. Performance indicators approved by the Global Reporting Initiative

Indicator category	Aspects
Economic (EC)	Economic results, market presence, indirect economic impact
Environmental (EN)	Resources, materials, energy, water, biodiversity, emissions, sewage and waste, product and services, compliance with regulations, transport
Practices for employment and decent labour (LA)	Employment, relations between employees and management, occupational safety and health, education and trainings, diversity and equality of opportunities
Respecting human rights (HR)	Procurement and investment procedures, counteracting discrimination, freedom of association, the right for collective disputes, child labour, forced labour and compulsory labour, security practices, rights of native populations
Impact on safety (SO)	Local community, corruption, participation in public life, violation of free competition rules, compliance with regulations
Responsibility for products (PR)	Client health and safety, labelling of products and services, marketing communication, customer privacy protection, compliance with regulations

Source: author's compilation based on [*Global Reporting*…].

Apart from the standards developed by GRI there are also other reporting guidelines in the world, which have been developed by, among others, such organizations as G3, AccountAbility, ISO or Social Accountability International (SAI) and are mandatory at both international and local scale.[4] Some of them are of an obligatory nature, others are optional. Each standard has its strengths and can result in company profits. It is important for an organization to decide about the choice of a standard depending on an entity's and its stakeholders' priorities [*Raporty społeczne*].

[4] The guidebook to the guidelines for social reporting (developed in cooperation by PricewaterhouseCoopers and AccountAbility and published by World Business Council for Sustainable Development) can be accessed at www.wbcsd.org/web/publications/accountability-codes.pdf.

4. The concept of integrated reporting

In 2010 the organization operating under the patronage of the Prince of Wales called Accounting for Sustainability (A4S) and GRI appointed the International Integrated Reporting Council (IIRC) composed of, among others, the representatives of IASB, FASB and IFAC (International Federation of Accountants), members of accounting environment, global corporations, state governments and international non-governmental organizations, as well as representatives of academic centres. As the main objectives of its activities IIRC listed, in particular, as follows [KPMG 2011, p. 19]:
– the development of comprehensive conceptual framework for integrated accounting, which defines its scope and key components,
– considering whether standards should be voluntary or mandatory,
– propagating the approval of integrated reporting by the regulators responsible for preparing statements.

Academic literature sources offer various definitions of an integrated statement. IIRC defines an integrated report as the statement presenting information about the strategy, management, efficiency and perspectives of an organization reflecting economic, social and environmental context of its functioning [IIRC 2011, p. 2]. A report should present the method used for entity management and its value creation in a transparent, concise and clear manner for all interested parties. In accordance with the IIRC concept, integrated reporting should combine the most vital information elements currently presented in financial statements, in the Board comments,[5] in statistical statements and in other separate documents, in a coherent way allowing for the assessment of a given entity capacity to create and maintain value in the mid- and long-term perspective.

In September 2011 IIRC published materials for discussion, presenting the proposal for the development of an international integrated reporting model which in a clear and simple way could combine basic information referring to an entity strategy, its functioning model, corporate governance, the obtained economic results and perspectives, as well as reflect economic, social and environmental conditions of the underlying entity operations and also could facilitate the decision making process by a broad spectrum of stakeholders [IIRC 2011]. Additionally, an integrated report could present relations between particular reporting areas and therefore, in the opinion of its authors, could become a transparent instrument for communication between an entity and its stakeholders.

[5] In December 2010 IASB, having considered the growing importance of non-financial information for financial statements stakeholders, published the document *Practical standpoint: Board commentary,* helping its user to understand an entity strategy followed in risk management, the influence of resources not covered by the financial statement on entity's performance and the impact of non-financial factors on information presented by a financial statement [*Praktyczne stanowisko*..., par. 14].

5. Final remarks

Beyond any doubt, the solutions suggested by IIRC resulted in greater transparency of information presented in statements, reporting methods harmonization, higher involvement of stakeholders and their increased trust towards a particular unit, costs reduction of separately prepared financial statements and corporate responsibility reports. However, the hereby paper author's opinion, having considered the criticism and problems of contemporary financial reporting as well as the scope and the nature of corporate responsibility reports, the shared hope that integrated reporting will become the basic and common form of entities' reporting about their economic an social performance, will present the task extremely difficult to achieve. Both, accounting and financial reporting, are influenced directly by the environment in which a given entity is functioning and also by diversified, frequently complicated regulations. Additionally, the presented by IIRC proposals will not eliminate numerous conflicting and still not clarified by IASB and FASB solutions in the area of an entity financial situation and its financial result reporting referring to e.g. discrepancies between entities' book value and market value or rules for intangible assets disclosure and valuation.

On the other hand, the research results carried out by AccountAbility organization and KPMG company at the turn of 2007 and 2008 show that the significant majority of sustainable development reports addressees do not read them at all. The survey covered over 2200 respondents (representatives of businesses, social organizations and academic circles) from all over the world. More than 450 of them declared that they do not read reports also because of their size (100–300 pages) [*Raportowanie społeczne*...].

At the background of the above presented discussion the author puts forward the following thesis: the obligatory financial reporting, in the form[6] transformed and adjusted to the needs of the global community, extended by the key non-financial aspects, related to entities' corporate social responsibility for their performance, presented as an additional note or a supplementary component added to the statement, can constitute a vital instrument in the presentation of the underlying entities responsibility for their economic and social achievements, necessary for the decision-making process by the growing number of stakeholders. The presented statements have to be useful, clear and transparent for their users and also helpful in the identification of both opportunities and threats related to environmental and social issues.

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[6] For more see e.g. [Zuchewicz 2011, pp. 77–95].

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SPRAWOZDAWCZOŚĆ FINANSOWA JAKO INSTRUMENT PREZENTACJI ODPOWIEDZIALNOŚCI JEDNOSTEK ZA ICH GOSPODARCZE I SPOŁECZNE DOKONANIA

Streszczenie: Jednostki gospodarcze poprzez wpływ na otaczające je środowisko współtworzą rzeczywistość oraz kształtują przyszłość zarówno naszą, jak i następnych pokoleń. W związku z tym istotną kwestią jest prezentacja dokonań jednostek, nie tylko w ujęciu finansowym, ale również w ujęciu ich wpływu na otoczenie i odpowiedzialności za poczynione działania. Mając na uwadze to, że spośród raportów finansowych jednostek najczęściej wykorzystywana jest sprawozdawczość finansowa, autorka przeanalizowała możliwości opracowania jednego, zintegrowanego sprawozdania finansowego o charakterze zarówno retro- jak i prospektywnym, zawierającego informacje o charakterze finansowym i niefinansowym, dotyczące także społecznej odpowiedzialności jednostek za ich dokonania.

Słowa kluczowe: sprawozdawczość finansowa, zrównoważony rozwój, sprawozdawczość zintegrowana.