

# Social Responsibility and Environmental Issues Addressed by Businesses in Romania

Daniela Grădinaru, Iuliana Georgescu, Loredana Huțanu (Toma), Mihai-Bogdan Afrăsinei

**Abstract**—This article aims to analyze the situation of Romanian companies from an environmental point of view. Environmental issues are addressed very often nowadays, and they reach and affect every domain, including the economical one. Implementing an environmental management system will not only help the companies to comply with laws and regulations, but, above all, will offer them an important competitive advantage.

**Keywords**—Environmental management system, environmental reporting, environmental expenses, sustainable development.

## I. INTRODUCTION

ENVIRONMENTAL accounting provides information necessary to internal management (environmental management accounting) to make internal decisions, as well as information intended for third parties and shall be published and used within the estimation of the environmental performance. Why should we publish such reports with environmental accounting information and what would determine companies to apply to this practice? In the event this decision is made, according to what model, standard, referential should these be published? What form and what indicators should include the report? At the present time, answers are incomplete and controversial.

The concepts of economic development and sustainable development are seen as disjunctive by most of entrepreneurs and investors. They consider that sustainable development results in sacrificing the economic performance. In a great measure, this conception is caused by the lack of education and training, respectively information in respect of the sustainable development, of the related principles and advantages, as well as the serious consequences of not adopting a strategy of sustainable increase.

## II. LITERATURE REVIEW

The favorable relation between the implementation of an Environmental Management System and Financial Performance – the component of the global performance which presents the maximum of interest for investors and shareholders – has been proved by earlier research. One

particular research studies companies in the oil and gas fields in the Niger Delta Region of Nigeria, which implemented environmental policies and analyzes their effects on profits [1]. Even though this research is accomplished at small scale, its results may be extrapolated, through a deductive reasoning, but with certain limitations given by the specific of the geographic area where companies activate, the field of activity (industrial, commerce, services, etc.), the impact on the environment through the economic activity launched, and so on. Based on results of the analysis, one may draw the following conclusions:

- The implementation of environmental policies, performance and competitiveness are positively related;
- Companies focusing on environmental protection get a competitive advantage, which is translated in superior financial performances;
- When companies include in financial reports information related to the impact on the environment, they will rejoice of a competitive advantage, of an increased rate of liquidity and of a low long-term environmental cost.

These conclusions may be restated under the form of certain recommendations addressed to companies in order to implement specific environmental policies and to include in reports, under standardized form, information related to the interactions environment – economic organization, benefiting by the advantages revealed through this study [1].

Assuming the same idea of reporting the information of quantification of environmental influences, by means of an econometric model applied on real data, it has been proved the direct relation between the volume of information reported to third parties of environmental nature and the financial performance [2].

Reference [3] points out the importance of ambient-type reports (a quantification of environmental influences of the company in carrying out its business), besides the financial ones. At the same time, this research attracts attention on the fact that, if these reports may increase through the corporate transparency, the financial aspects may also be “disguised”, bringing in the first line the social-environmental information, which may have a positive impact on the public, distracting from the eventual management issues [3].

Another study which has to be mentioned examines the importance of measuring and using environmental performance indicators within Canadian production companies. Authors consider four uses of these indicators (EPI - Environmental Performance Indicators), namely: monitoring the compliance with the quality standards, explaining the continuous improvement of the activity, the support of the

Daniela Grădinaru is with the “Alexandru Ioan Cuza” University from Iasi, Romania, Accounting Department (e-mail: danyella\_gradinaru@yahoo.com).

Iuliana Georgescu is with the “Alexandru Ioan Cuza” University from Iasi, Romania, Accounting Department (e-mail: iuliag@feaa.uaic.ro).

Loredana Huțanu (Toma) is with the “Alexandru Ioan Cuza” University from Iasi, Romania, Accounting Department (e-mail: aprilore@yahoo.co.uk).

Mihai-Bogdan Afrăsinei is with “Alexandru Ioan Cuza” University from Iași, Romania.

process of making decisions and ensuring data which is to be reported to third parties [4]. After this empirical study, authors associated the use of indicators with certain company features. Therefore, it was revealed that companies which use a system of environmental performance indicators are among: companies which have an active environmental policy, companies certified by ISO 14001, large companies and public organizations. The main problem of environmental indicators is that when they are in a large number, they aggravate both the comprehension of transmitted information and the process of making decisions. Therefore, the use of several indicators may complicate the situation, and they cannot reach any longer the purpose of facilitating the process of communication between the statistician and the information user [5]. The solution is to combine these indicators in a single measure: the one of the ecological performance – integral part of the global performance.

The attempts to suggest such a model to estimate an environmental performance at the level of each enterprise, through the integration and combination of certain qualitative and quantitative indicators were few and simplistic, for the most part being caused by the lack of environmental information offered by accounting. The orientation of accounting towards a new model to include the information concerning costs and benefits related to the interactions of the organization with the environment, shall facilitate and create the premises of system of measuring the ecologic performance and efficiency in an efficient and useful manner.

Environmental reports are elaborated in compliance with IFRSs. Reference [6] resumes certain aspects concerning the financial reporting, insisting on IFRSs and IASs which have a greater relevance on environmental reports, emphasizing the categories of information that may be contained in reports intended to third parties. Practically, the study consists in recommendations of reporting in compliance with the regulations established by the international regulatory authorities in the sphere of accounting, emphasizing the need of a normalization in this chapter too, need which consists in a signal that economic agents have a good opinion in respect of the implementation of a system of environmental accounting, being aware of the related advantages and responsibilities [6].

The European law provides a general frame of presentation of the environmental information, through the recommendation CE 2001/453, and in the USA, Canada, Great Britain, France, Australia, Germany, Japan, supervision organizations, various authorities and professional bodies establish recommendations and principles of publication of the environmental reports. However, in Romania, the efforts on national plan are minimal on these lines [7].

International large companies publish situations presenting qualitative and quantitative aspects of the environmental management, under the name of Corporate Responsibility Report. These contain the company's environmental strategy, its amendment from one year to another, social and ecological objectives and responsibilities in relation to the community and environment where they carry out their business, as well as environmental indicators – technical or achieved based on

financial information, in absolute dimension or as percentage of the total turnover (environmental investments, ecological acquisitions, waste treatment, projects and sponsorships of environmental protection).

Measuring the environmental performance is beneficial both for the management of the organization (it supports the system of making corrective decisions and actions), but also for shareholders, investors (by the positive effect of environmental preoccupations on the financial performance) and third parties (the current consumer orienting towards providers responsible from a socio-ecologic point of view).

### III. ENVIRONMENTAL ISSUES AND COMPANIES FROM ROMANIA

The social responsibility, no matter whether we refer to complex strategies requiring the restructuring of activity by the integration of the Corporate Social Responsibility in the business strategy or to precise projects of philanthropic nature, starts to become a real preoccupation for more and more companies carrying their business in Romania. Nonetheless, many organizations continue considering the implementation of CSR projects as a difficult task, the most frequently invoked reason referring to the unfavorable frame from Romania, for such initiatives: the lack of education of the Romanian consumer in the direction of the ethical consumption that transforms the sustainable business in a profitable one, the absence of some real tax incentives for responsible companies, the lack of an adequate promotion of the social responsibility.

More and more companies in Romania start to allocate significant amounts of money for investigations aiming at environmental protection. In the last period, the large companies in Romania started to involve more and more in CSR actions, not because it is better for the environment, but because it helps in their long-term profitability.

Green Business Index (2012) is a classification of the most responsible companies in respect of the environment, in compliance with the standards ISO 14001 and ISO 14031, monitoring green initiatives in the Romanian business field, and assistance and training for improving the environmental performance. Its importance consists in the fact that it may offer the authorities a general view on the existent situation and implicitly, directing funds and initiatives towards areas where they are needed. In this way, they shall also succeed to attract attention on the importance of environmental protection and on existent natural resources. The report is divided in 7 categories: sustainable development, impact on the environment, sustainable transport, the use of resources, the condition of buildings, "green" acquisitions, waste management.

As it may be noticed in the Fig.1, 38% of the companies do not have an environmental management system. They may present preoccupations on these lines, although officially they have not implemented an Environmental Management System.

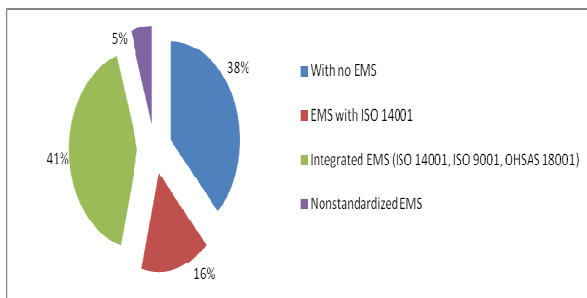


Fig. 1 Types of EMS – environmental management systems implemented by companies in 2012

The budget of the Corporate Social Responsibility (CSR) contains the amounts allocated by companies for social and environmental actions. About 30% of the companies do not have such a policy, and the ratio is close to the one of companies having not implemented an Environmental Management System. Most of them allocate up to 40% from the budget intended for Corporate Social Responsibility for actions of environmental protections, while other few companies exceed the limit of 40%, which shows the fact that they prevalingly gamble on social actions, which tend to sensitize the consumer in a greater extent.

This fact is also due to the object of activity and to the field these companies activate (those with a higher impact on the environment shall allocate more money from the budget for actions of environmental protection), but also to a well-established strategy to win the trust of current and eventual clients.

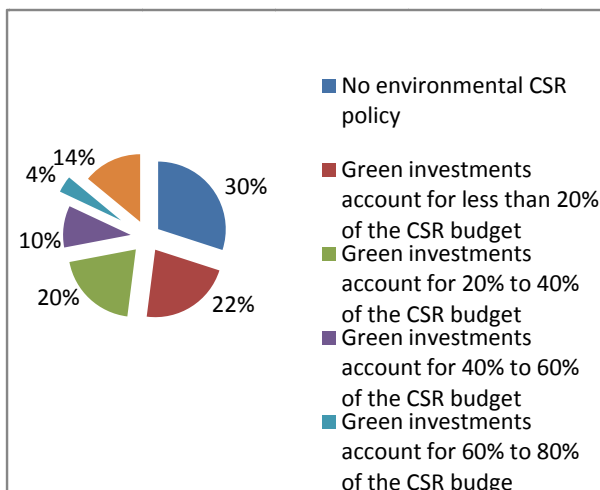


Fig. 2 Budget 2011 for the environmental policy within companies

At national level, data is collected every year in respect of expenses in the field of environmental protection. For 2011, expenses concerning the environmental protection, according to Green Business Index, are the following [8]:

- Waste management: 9,672 billion lei (51,9% of the total of expenses for environmental protection);
- Water protection: 4,384 billion lei in 2011 (23,5% of the total of expenses for environmental protection);
- Natural resources protection and biodiversity conservation: 1,087 billion lei;
- Air protection: 1,102 billion lei;
- Soil and water protection: 352.000 lei.

This data is graphically represented in Fig. 3, noticing the great percentage of expenses with waste management. It explains by the legal regulations in Romania on these lines, but also by the fact that waste management must be achieved by all companies, irrespective of their field or area of activity. The following category of expenses in terms of percentage is water protection – a field which is also subjected to fairly strict legal regulations.

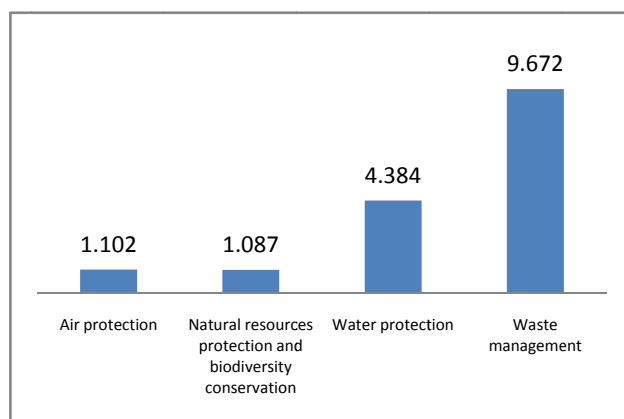


Fig. 3 Expenses registered by companies in Romania in 2011, depending on fields (billion lei)

The Green Business Index study is based on data prevalingly coming from small and medium-sized companies, but also large companies interested either in assessing their position besides environmental protection or in assuming it, considering that it is an element completing their reputation in a positive manner.

The implementation of an Environmental Management System or the adaptation of a strategy based on social and environmental responsibility does not compulsorily involve the existence of an environmental accounting system.

For example, Antibiotics SA publishes an environmental report annually, where apart from descriptions of the environmental management system, they also implemented a series of qualitative data, containing information taken from the accounting system of the enterprise, as follows [9]:

TABLE I  
ACCOUNTING DATA IN ENVIRONMENTAL REPORTS OF ANTIBIOTICS SA

| Crt. No. | Activity   | Costs 2010 Lei | Costs 2011 lei | Costs2012 Lei |
|----------|--|----------------|----------------|---------------|
| 1.       | Purification station – exploitation, monitoring, services parties, expenses with the staff.      | 2.764.863,59   | 2.849.569      | 2.941.681     |
| 2.       | Waste incineration – exploitation, installation, collection, transport, expenses with the staff. | 766.559,49     | 629.968        | 634.443       |
| 3.       | Administrative – collection – waste transport, maintenance                                       | 467.034,36     | 462.572        | 462.572       |

Being intended for publication and reporting to third parties, this data is rendered in terms of costs, a concept specific to the accounting management system. It happens because the lack of a financial accounting system resulted in the use of data in the internal accounting of the company, selecting those costs that may be meant as environmental and classified according to the own vision of the managing and financial-accounting staff in the enterprise.

Another example is the one represented by refineries Petrobrazi and Yorktown which, having seized the major implications of environmental costs on the operational and strategic decisions, decided to retreat the data in the general accounting system, extracting those information associated to environmental issues. Encountering difficulties in the correct allocation of costs, in the absence of adoption of an environmental accounting, the refinery Yorktown presented the data mentioned in Table II, while for the refinery Petrobrazi, it was not possible to clearly set up some pertinent data on these lines [10].

TABLE II  
ABSTRACT OF ENVIRONMENTAL COSTS AT THE REFINERY YORKTOWN,  
EXPRESSED AS PERCENTAGE OF THE NON-GROSS OPERATING COSTS

|                              |       |
|------------------------------|-------|
| Waste Treatment              | 4,9%  |
| Maintenance                  | 3,3%  |
| Product Requirements         | 2,7%  |
| Depreciation                 | 2,5%  |
| Administration, Observance   | 2,4%  |
| Sulphur Recovery             | 1,1%  |
| Waste Disposal               | 0,7%  |
| Taxes, fines, penalties      | 0,2%  |
| Total of recurrent costs     | 17,9% |
| Total of non-recurrent costs | 4,0%  |
| Total costs                  | 21,9% |

This analysis, which is an extremely difficult operation from the point of view of obtaining data – over 20% of the non-gross operating costs of the refinery representing environmental costs – reveals the importance of implementing the environmental accounting. First of all, this need is manifested at managerial level, in order to support the decisional process.

Below we aim at analyzing the situation for economic entities classified as microenterprises – the small and very small ones, but in an overwhelming number – in respect of the environmental protection and expenses associated to this objective.

In order to draw some conclusions related to the interest besides environmental protection from the point of view of expenses and investments, but also the feasibility of applying

environmental accounting and reporting this information, the following study was carried out:

- ✓ We considered a sample of 15 microenterprises with different forms of organization, from Iasi and Botosani;
- ✓ The objects of activity are various: human medical services, veterinary medical services, animal breeding and plant growing, commerce, services;
- ✓ For 2012, it was analyzed the situation of data in the financial accounting system and were excerpted the expenses that may be meant as environmental. Those with fines and penalties, as well as those related to sanitation taxes were not taken into consideration.

The situation of retreating the financial-accounting information is the following:

TABLE III  
ENVIRONMENTAL EXPENSES RELATED TO ANALYZED COMPANIES

| Crt. No. | Entity <sup>1</sup> | Current Environmental Expenses (lei) | Environmental Assets (investments) (lei) | Environmental Provisions (lei) |
|----------|---------------------|--------------------------------------|--|--------------------------------|
| 1.       | A                   | >400 and <800                        | 0  | 0                              |
| 2.       | B                   | >100 and <200                        | >3000 and <4000                          | 0                              |
| 3.       | C                   | 0                                    | 0  | 0                              |
| 4.       | D                   | >100 and <200                        | 0  | 0                              |
| 5.       | E                   | 0                                    | 0  | 0                              |
| 6.       | F                   | >100 and <200                        | 0  | 0                              |
| 7.       | G                   | >100 and <200                        | 0  | 0                              |
| 8.       | H                   | 0                                    | 0  | 0                              |
| 9.       | I                   | >200 and <400                        | 0  | 0                              |
| 10.      | J                   | >2000 and <3000                      | 0  | 0                              |
| 11.      | K                   | >100 and <200                        | 0  | 0                              |
| 12.      | L                   | 0                                    | 0  | 0                              |
| 13.      | M                   | >100 and <200                        | 0  | 0                              |
| 14.      | N                   | 0                                    | 0  | 0                              |
| 15.      | O                   | >200 and <400                        | 0  | 0                              |

Conclusions of the study:

- ✓ At 5 of the 15 analyzed entities, no environmental expenses were identified;
- ✓ Provisions were not integrated in any of the cases;
- ✓ Most of current environmental expenses come from obligations assumed within the course of the object of activity. We refer to medical services, for which the Ministry of Public health requires signing contracts with specialized units of waste management as condition of authorizing the activity;

<sup>1</sup> We have chosen a random literal name of companies in the sample, as real names are not relevant for this study, also being included the name of persons owing the economic entities (within liberal forms of organization, individual enterprise, etc.)

- ✓ The only existent investment is the one related to a water purification station, and at current expenses were included those related to installation and training by the specialized unit;
- ✓ In two of the units having commerce as object of activity, they decided to give up non-recyclable packages. One of the units uses recyclable packages only, purchased monthly from a specialized unit. The second commercial unit uses packages which may be returned;
- ✓ A current environmental expense was also identified by the invoice related to the consultancy related to the possibility to install some photovoltaic panels as alternative for the production of necessary electricity;
- ✓ Accounting software used by the analyzed entities do not allow the registration of environmental information. Only two of the 15 units use commercial accounting software. The others have programs realized by professionals in IT and which are used by a restrained number of clients for the financial-accounting records.
- ✓ Environmental expenses have small values, and at first sight, their separate classification and possibly their reporting may not seem feasible, also considering the fact that the impact on the environment is fairly reduced. But, considering the large number of such entities with features similar to the analyzed ones, one may justify a need for preoccupations in the field of environmental protection.
- ✓ Most of the entities take initiative in the field of environmental protection only if they are restrained from a legislative point of view.

The lack of an environmental accounting software to allow the separate prominence of elements related to the environmental protection resulted in an effort consuming many resources to retreat the accounting data. Perhaps some elements related to the environment, but included in mixed expenses may not have been identified.

#### REFERENCES

- [1] A.I. Asuquo, "Environmental Friendly Policies and their Financial Effects on Corporate Performance of Selected Oil and Gas Companies in Niger Delta Region of Nigeria", 2012, in American International Journal of Contemporary Research, vol.2, no.1, pp.168-173
- [2] P.M. Clarkson, Y. Li, G.D. Richardson, F.P. Vasvari, "Revisiting the relation between environmental performance and environmental disclosure: an empirical analysis", in Accounting, Organizations and Society, 2008, 33, pp.303-327
- [3] A. Hopwood, "Accounting and the environment" in Accounting, Organizations and Society, 2009, 34, pp.433-439
- [4] J.F. Henri, M. Journeault, "Environmental Performance Indicators: An empirical study of Canadian manufacturing firms" in Journal Of Environmental Management, 2008, 87, pp.165-176
- [5] C. Apostol, "Reflecting environmental policy using specific indicators" in Scientific Works, Vol. 51, Agronomy Series, Publisher „Ion Ionescu de la Brad”, Iași
- [6] M. Firoz, "Environmental Accounting and International Financial Reporting Standards" in International Journal of Business and Management, vol.5, no.10, 2010, pp.105-112
- [7] C. Apostol, "The reflection of the environmental politics in the annual financial statements", in Lucrări științifice, Vol. 51, 2008, Seria Agronomie, Editura „Ion Ionescu de la Brad” Iași
- [8] Green Business Index, 2011, 2012, accessed from <http://www.gbindex.ro/ro>

[9] Environmental Annual Report, Antibiotics Iași, 2010, 2011, 2012

[10] M. Ghereș, Ghe. Săvoiu, "Environmental economy. Treaty.", Editura Universitară, București, 2010