

Analysis of Accounting Disclosure Mode for Strengthening Corporate Social Responsibility

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Abstract

Corporate Social Responsibility (CSR) has become the social focus with the pressure of social problems. As we all know, accounting report and analysis have become an important instrument of strengthening CSR. The current situation and problems of Corporate Social Responsibility Accounting (CSRA) disclosure in China were analyzed firstly. Then, in the light of foreign feasible practice, the content, ways and future development of CSRA disclosure were presented. Finally, a mode of CSRA disclosure that fits Chinese enterprises was constructed. This mode attempts to strengthen CSR and promote the value of enterprises in China ultimately.

Keywords: Corporate Social Responsibility; Accounting Disclosure; Disclosure Mode

Along with the rapid development of economy in China, the social problems, such as unfair income distribution, increasing employment pressure, severe resource waste, and environmental deterioration, etc are getting obviously. Especially in recent years, some multinational corporations ask Chinese corporations in their supply chain to implement Social Accountability 8000 (SA8000) to strengthen CSR in China (Zhou, 2006, pp. 5-7). And accounting disclosure is one of the important instruments of strengthening CSR.

1. Current Situation and Problems of CSRA Disclosure in China

In China, the relevant studies about CSRA disclosure began with 1990, but there was still no comparatively perfect disclosure mode and systematic disclosure system. In practice, some corporations have attempted to disclose CSR information. But their content disclosed is a little and their ways of disclosure are non-standard. The purpose of strengthening CSR couldn't be achieved through CSRA disclosure.

We can see that, at present, there are still many problems in CSRA disclosure for most enterprises in China. Then this situation would be illustrated in detail.

At first, the content of disclosure in China's corporations is not comprehensive and is different greatly in various enterprises, evenly in the same industry. Nowadays, there are few corporations that disclose CSR information comprehensively. Many corporations just disclose their contributions to society but not the adverse effect on society. Besides, because of the lack of uniform standards, there is a great difference in the content. Then CSR disclosure becomes a camouflage for enterprises in China in order to deal with some policies in some degree (Yang & Liu, 2006, pp. 66-67).

Then, the way of CSRA disclosure is single. At present, most corporations still use written narrative but not quantifiable method to disclose CSR. In other words, the qualitative disclosure is more than the quantitative disclosure, and the non-accounting ways are in the leading position (Liu & Kong, 2006, pp. 36-43)

Finally, corporations lack the consciousness of CSRA disclosure respectively. In practice, CSR information usually was reflected by traditional accounting subjects but not the corresponding accounting subjects based on social responsibility. There are few corporates compile "CSR Report" separately expect some multinational corporations in the last several years.

Due to the situation such as discussed above, Chinese CSRA disclosure couldn't achieve the goal of strengthening CSR. In order to realize this and to promote the value of enterprises, a mode of CSRA disclosure that can be practiced in Chinese corporates should be constructed.

2. Construction of a Mode of CSRA Disclosure for Chinese Corporations

2.1 Goal of Disclosure

2.1.1 Goal of CSR

Why do corporations put CSR on their shoulders energetically now that high cost should be paid to bear the social responsibility?

On the one hand, performance of CSR could create social value. From the perspective of the sociology, corporate is more than an “Economic Man”, but is a “Social Man”. If corporates could exceed the goal of maximizing microcosmic interests, care about people's value in process of reproduction and their contribution to society, the “negative externalities” that issue from operation could be solved and the social welfare maximization could be achieved.

On the other hand, performance of CSR could promote the value of corporates. CSR is more than a kind of restriction for corporations, but is a necessary way of getting free in market economy. Indeed, bearing CSR costs corporations a lot, but it is also a way of showing corporate qualities and generating free advertising. By taking on CSR voluntarily, corporations could gain the public trust. At last continuous development can be achieved easily than before for Chinese enterprises.

2.1.2 Goal of CSR Disclosure

Now CSR not only could create social value but also promote the value of corporates, so corporates carry responsibility and to perform and disclose CSR actively. Along with the social problems getting obviously, corporations should come to realize that CSR should be the natural effect derived from business operation in the society but not an obligation imposed by external force. So corporations should strengthen the performance of CSR constantly. Effective accounting disclosure mode is one of the important instruments to realize this aim. Disclosure information on income as well as the information on performance of CSR in environment, human resources, product/service, social welfare and so on should be presented fully and clearly.

2.2 Content of Disclosure

In order to construct a mode of CSRA disclosure for Chinese corporations, the content of this mode must be made clear firstly.

2.2.1 Relevant Foreign Practice

Nowadays there is no unified standard in the content of CSRA disclosure internationally. Though the developed countries are involved early in the research on CSR, the content of disclosure is still different greatly between countries because of their different national conditions. For example, in France, disclosure of employee benefit is more concerned and “social balance sheet” is required to submit. In America, disclosure of environment, especially the soil contamination problem is emphasized. Britain pays more attention to the disclosure of human resources. Germany gives greater emphasis on corporate contribution to environmental protection and so on (Chang, 2005).

The representative aspects are the study of Social Investment Organization (SIO) in international studies. Many researchers pointed out that the text of CSR reporting should disclose information on the following ten projects. They are Environmental Performance, Labor Rights, Health and Safety Practices, Human Rights, Community Economic Development and Social Impacts, Corporate Governance, Corporate Payments to Governments, Stakeholder Engagement, Supply Chain Management, Corporate Planning and Policies (Dara, O'Rourke, 2004, pp. 1-47).

Though there is no unified standard, international studies and practices provide foundation for the content of CSRA disclosure. According to relevant studies, some illumination can be figured out. First, the content of disclosure should seek to increase the quality of CSR disclosed. Second, the content of disclosure should work to increase the uses of the information and the benefits to users of the information. Third, the content of disclosure should create mechanisms for learning and continuously improving disclosure systems. Only in this way, CSR could be strengthened really.

2.2.2 Practice Choice of China

It need utilize the relevant foreign practices to make clear the content of Chinese CSRA disclosure, in the meantime the actual circumstances of China should be concerned. So the content of CSR disclosure for China enterprises should include such five parts at least.

(1) The contribution made to income. Income is the important precondition for the performance of other CSR. Only the level of earning exceeds social average level, corporations could make certain financial resources to perform CSR. Therefore, the information on income is not only the content of traditional financial disclosure but also the prime content of CSRA disclosure.

(2) The contribution made to improvement of environment. The environment discussed here includes two types. One is “ecological environment”. Generally corporations operate to maximize their interests, but their activities often damage the ecological environment. So it is necessary for them to make effective measures to control pollution and maintain ecological balances. The other is “social economic environment”. Corporate development relies on their

social economic environment. So corporates should comply with commercial morality strictly to disclose CSR, thus make sure that the CSR information is reliable and build a fairer competitive environment.

(3) The contribution made to human resources. Knowledge economy makes human resources be the significant factor. Investment to Human resources can bring great economical benefit not only to corporations but also to human being which derived from the improvement of employee's diathesis and their living conditions. Therefore, corporations should disclose information on development, utilization and protection of human resources. For example, the number of employees, recruitment of staff, manpower development, social education and so on (Anon, 2007).

(4) The contribution made to product/service. The quality of product/service is the critical weapon which corporates take advantage of to be successful in the intense market competition. So corporates should disclose their contribution to product/service, such as functioning property of product, durable year, security, fidelity of advertisement, degree of consumer satisfaction, after-sale service and so on, to increase brand awareness and establish a good corporate image.

(5) The contribution made to social welfare. Because the social resources consumed by corporates are limited, corporates have obligations to supply donation and help to society. This is corporate obligation as well as important mean of establish good corporate image. Therefore, corporates should disclose their contribution to social welfare. For example, developing public transport, medical and health services, and other public utilities; subsidizing education, PE and charity; giving equal employment opportunities to social vulnerable groups; paying tax in time and so on.

2.3 Ways of Disclosure

2.3.1 Relevant Foreign Practice

In the west, different countries and corporations disclose CSR in different ways. Even if the same corporate, it perhaps uses different ways when the content of disclosure is different. Usually, there are three ways used to disclose CSR (Wang, 2007, pp. 33-35).

(1) The way of written narrative. As the simplest way, it mostly makes use of written record to describe the positive and passive influences on society.

(2) The way of "cost outlay". This is the way that uses "cost outlay items" to reflect the cost outlay of CSR. It usually adds expenditure items that could get cost data into the report, and it is the most wildly used way in environmental liability.

(3) The way of making independent report. This way could reflect the content of CSR well and could be quantized in money. But this way also bring a series of problems, sometimes it maybe mismatch the "cost-benefit principle".

2.3.2 Practice Choice of China

In light of foreign practice and China's conditions, Chinese corporations should use different ways according to different corporate scale in order to strengthen CSR.

(1) Small and partial medium-sized enterprises (SME) could use written narrative to disclose CSR. There are two reasons for SME to use this way to illustrate their CSR disclosure. One is that they bear limited CSR, and the other is the professional qualities of their accounting personnel have difficulty to meet high disclosure requirement. Therefore, SME should use some simple ways to disclose corporate influences on society. Some informal styles or words can be used to illustrate the influence of enterprises' operation activities on society such as environmental statement, human resource inventory report and other specialized written report.

(2) Medium-sized and partial large enterprises could add some items of CSR into traditional financial reporting. For example, facilities used to environmental control can be listed in the assets section and future expenditure on pollution treatment can be listed in liabilities section of Balance Sheet (B.S.). In Income Statement, some items can be set up separately such as "environmental greening expense", "public welfare and donation expenditure" and so on (Anon, 2007). Regarding to the unquantifiable information, corporations still need use the way of written narrative to disclose.

(3) Large business, especially the listed company, should make independent CSR Report. For example, "CSR Balance Sheet" can be used to reflect the quantity and composition of assets and liabilities on CSR; "CSR Income Statement" can be used to reflect accounts balance and profits on CSR; "CSR cash flow statement" can be used to dynamically reflect the changes of cash and cash equivalents on CSR. Besides, corporates could make supplementary statement, such as "Social Influence Report", "Added Value Statement", "Ratio Analysis Statement", and could design the architecture of statement according to their own characteristics.

2.3 Innovation of Future Mode

Construction of CSRA disclosure mode is a dynamic process that needs continuous improvement. Along with the continuous innovation of Internet and computer technology, the future mode of CSRA disclosure should develop towards electronicization and networking (Li, 2007, pp.48-49), thus provide new instrument of strengthening CSR.

Firstly, the ways of disclosure have been informative. With the help of Internet and IT, corporations could provide CSR information more easily and quickly. For example, by inserting searching function into networking CSR Report, users just need input relevant words to search related CSR information.

Secondly, disclosure should be in time. Corporates needn't disclose CSR at the end of the year in the networking mode of information disclosure. They could disclose well-timed CSR according to own conditions and users' requirements.

Lastly, diversified ways of disclosure can be presented. For example, corporates could make use of computer module to achieve man-machine interactive CSR disclosure, or make use of diagrams to reflect more intuitive CSR, or make use of image and sound to introduce CSR achievement and so on, thus make the interface of CSR disclosure more beautiful and humanistic.

From the point of above view discussed, a mode of disclosure that strengthens CSR for Chinese enterprises could be constructed as Figure 1.

3. Conclusions

Faced the large pressure from international market, dilemma of eco-environment, and the requirement about self-directed innovation, a mode of CSRA disclosure for China enterprises must be constructed to strengthen CSR and promote corporations to survive and develop. Firstly in the content of disclosure, corporations should fully disclose the information on traditional income as well as the information on improvement of environment, human resources, product/service, social welfare and so on. Secondly in the ways of disclosure, corporations should use different ways according to respective scale. SME could use simple ways and large business should make independent CSR Report to disclose CSR in detail. Lastly, a point should be noticed that the construction of CSRA disclosure mode is a dynamic process that needs to be improved continuously. Only gradually promoting and improving the mode in practice, could CSR of China be strengthened really and could corporate value be promoted ultimately.

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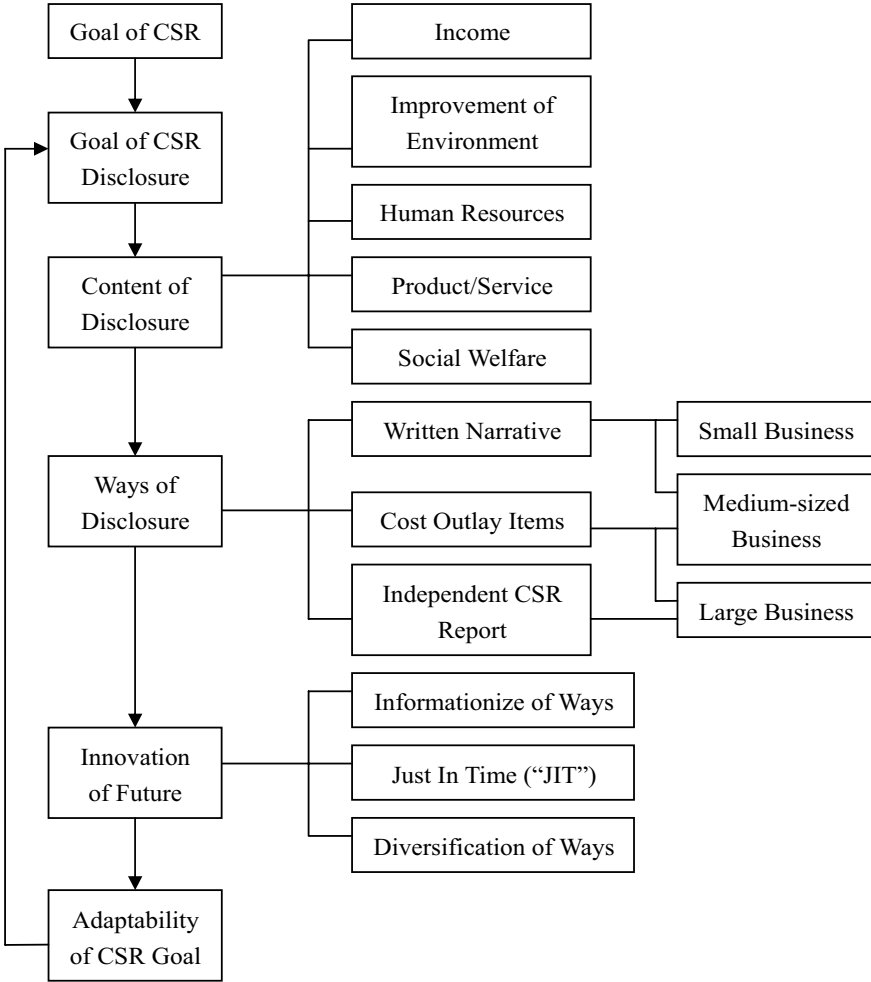


Figure 1. the mode of disclosure that strengthens CSR