PREFACE

Dynamic and extensive changes pose a number of challenges to the accounting system of various entities. A company is perceived not only as an entity whose purpose is to make a profit, but also as an organization that is to benefit the society (local community, clients, etc.), not to harm the environment, contributing, at the same time, to the elimination of problems arising from unequal treatment, social and market discrimination.

New regulations on the regional (EU) and international scale have responded to these new challenges facing accounting and reporting enterprises perceived in such a way. The term *sustainability* is understood as socio-economic development in which the process of integrating political, economic and social activities takes place, while maintaining natural balance and the durability of basic natural processes, in order to ensure the possibility of satisfying the basic needs of individual communities or citizens of both the modern generation, and future generations.

The aim of this e-book is to present the most important aspects related to sustainability, Corporate Social Responsibility and innovation from an accounting perspective. The book contains parts that deal with accounting aspects of sustainability and innovations and can be useful in the teaching process. Theory and case studies discussed in the book are useful for accounting teaching.

The book consists of ten chapters devoted to relevant and topical issues of sustainability and innovations. In particular, there has been discussed:

- sustainability and Corporate Social Responsibility in accounting,
- social responsibility reporting standards,
- narrative reporting,
- integrated reporting,
- non-financial reporting in selected European countries,
- Socially Responsible Investments (SRI),
- external costs,
- derivatives in accounting,
- costs of research and development,
- cryptoassets.

Chapter 1, **Sustainability and Corporate Social Responsibility in accounting** is an introduction to further considerations and deals with the essence of sustainable development, Corporate Social Responsibility and their recognition in accounting. Sustainability has three dimensions: ecological, economic and social. A consequence of the growing importance of social and ecological aspects of business operations is the increased interest and requirements for reporting, understood as a set of reports containing both financial and non-financial information. This chapter covers the concept of sustainable development and Corporate Social Responsibility explains the role, goals and challenges of social responsibility accounting.

Chapter 2, **Social responsibility reporting standards** presents the most important reporting guidance such as GRI, OECD, United Nations Global Compact, International Organization for Standardization. However, CSR reporting is still predominantly voluntary and not standardized. According to the analysis of the content and scope of the most important frameworks and standards of sustainability reporting, it can be confirmed that they have certainly contributed to improving the quality of non-financial reporting.

Chapter 3, **Narrative reporting** focuses on descriptions and explanations in accounting reports. The purpose of the chapter is to identify and describe the determinants of the development of accounting narratives in practice, and to explain why narratives are gaining importance in accounting communication. The chapter presents the links between accounting and language, the development of accounting narratives and the factors determining the use of narratives. The authors notice that there are still many challenges ahead of narrative financial reporting, such as determining the minimum content of reports, ensuring comparability of reports or the issue of external control of narrative financial reporting.

Chapter 4, **Integrated reporting** discusses the motivations, objectives and the process of preparing an integrated report. Integrated reporting can prove to be an effective tool for businesses looking to shift their reporting focus from annual financial performance to long-term shareholder value creation. The International Integrated Reporting Framework encourages the preparation of a report that shows business performance against strategy, explains the various capitals used and affected, and gives a longer term view of the organization.

Chapter 5, **Non-financial reporting in selected European countries** presents the experience of Croatia, the Czech Republic and Poland in the field of preparing non-financial reports. A significant contribution to promoting the importance of sustainability reporting was made by the Non-Financial Reporting Directive (2014/95/EU) which obliged large public interest companies with over 500 employees to disclose certain non-financial information. In order to satisfy the EU rules, the analysed countries have implemented into its legislation the provisions of the Directive 2014/95/EU regarding the disclosure of certain non-financial reporting.

Chapter 6, **Socially Responsible Investments** discusses the essence of socially responsible investing and socially responsible investment. Socially responsible investing is a decision making process concerning the allocation of free financial resources, where the investor aims at maximization of profit and minimization of risk on one part and includes the socio-ethical and environmental-ecological considerations on the other. We can find four types of motives such as psychological and social, legal, economic and strategic, financial. This chapter also presents strategies and market of socially responsible investing.

Chapter 7, **External costs—accounting perspective** describes costs connected with using goods such as air, soil, water, silence or the aesthetics of the surroundings. They all are non-marketable goods; without a price on the market. Therefore, one of the non-market valuation methods could be used to evaluate them. One of the biggest problems for accounting in the future will be measuring the volume of using these goods or measuring the size of reduction in the quality of public goods suffered and assigning the decrease to particular companies.

Chapter 8, **Derivatives in accounting** is devoted to financial instruments, in particular derivatives. Derivatives are the financial instruments whose price depends on the value of the underlying instrument. They are used to protect the enterprise against financial risk related to changes in prices on the markets, changes in the exchange rate or changes in interest rates, as well as for commercial purposes. This part presents two different approaches to accounting of derivatives: general model and hedge accounting. The derivative is reflected in the balance sheet of the entity that is a party to a given contract. The results obtained on the derivative contract is presented in the profit and loss account.

Chapter 9, **Costs of research and development** shows the company's activity in the field of research and development and the related costs. The authors noticed that year by year, research and development works constitute an increasingly important element of the functioning of enterprises. Valuation and financial reporting for intangible assets is perhaps one of the most difficult and most controversial topics of accounting and financial reporting. This is due to the intangible nature of the assets, their diversity as well as the lack of active markets which would allow for reliable pricing/valuation. The reporting of internally developed intangible assets is even more problematic.

Chapter 10, **Cryptoassets—nature, valuation and disclosures in accounting** focuses on cryptocurrencies (e.g. Bitcoin, Ethereum) and digital tokens which are specific rights or values representatives. As a result of the transformation on the financial market, we are currently dealing with cryptoassets, which are a creation of blockchain technologies and the changing habits of the digital society. One of areas that there are a lot of doubts regarding these new technological solutions is accounting. It is not clear how we can classify particular groups of cryptoassets and how to value them in financial statement. The aim of the chapter is to present the essence, use and valuation issues of cryptoassets and also to review the definitions of selected asset groups in the currently applicable accounting regulations to identify those asset groups to which cryptocurrencies can be classified.

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We have great optimism that our publication will contribute to a better understanding of the sustainable development concept, sustainability and Corporate Social Responsibility in the field of accounting.

The publication was created at a difficult time for everyone, when the world was impacted by the COVID-19 pandemic. This factor strongly influenced our understanding of the issues raised, the form of cooperation and the problems faced by individual countries.

We hope that the international cooperation that began with this book, will continue in a series of joint research, organisational and teaching works.

Marzena Remlein

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1.

SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY IN ACCOUNTING

Nikolina Dečman
Faculty of Economics and Business, University of Zagreb

Marzena Remlein
Poznań University of Economics and Business

Ana Rep
Faculty of Economics and Business, University of Zagreb

Abstract: The term *sustainable development* is understood as such socio-economic development in which the process of integrating political, economic and social activities takes place, while maintaining natural balance and the durability of basic natural processes, in order to ensure the possibility of satisfying the basic needs of individual communities or citizens of both the modern generation, and future generations. Sustainable development has three dimensions: ecological, economic and social. A consequence of the growing importance of social and ecological aspects of business operations is the increased interest and requirements for reporting, understood as a set of reports containing both financial and non-financial information. This chapter covers the concept of sustainable development, CSR and explains the role, goals and challenges of social responsibility accounting.

CSR reporting has become some kind of a trend in non-financial reporting. Many large international companies make great efforts to prepare CSR reports in order to transparently communicate with their stakeholders as well as strive to achieve established social and environmental goals. CSR covers different aspects of business, with, among other things, environmental issues being highlighted. The importance of green accounting has been recognized globally where the adoption of the 2014/95/EU Directive has just further raised awareness of the importance of reporting on the environment and environmental activities. This chapter covers the basic concept and development phases of sustainable and environmental accounting, explains the role of green accounting in modern business conditions and discusses the benefits and opportunities it provides to interested users.

Keywords: accounting for sustainable development, Corporate Social Responsibility, environmental management accounting, global corporate responsibility reporting, green accounting, social accounting, social responsibility accounting, sustainability reporting, sustainable development.

1.1. Sustainability and Corporate Social Responsibility

Sustainable development means a comprehensive approach to business management, focusing on creating and maximizing long-term economic results while minimizing the impact on the natural environment and taking into account the needs of employees and other members of society in an ethical manner. The origin of the term sustainable development lies in the 18th century and was actually used in forestry. This was as the then populace was only allowed to cut down a certain number of trees so that a long-lasting protection of the tree population was guaranteed. This method ensured a continuous supply of wood without reducing resources for forthcoming generations. The Club of Rome precipitated an international discussion due to its report "Limits to Growth" (Ebner & Baumgartner, 2006, p. 2).

The concept of sustainable development appeared in the 1960s as a consequence of the growing awareness of the society about the emerging threats in the conditions of systematic economic growth and limited natural resources. It was then that the phenomena related to the ecological crisis intensified, which was a manifestation of the negative externalities of economic growth that had been practically unchanged since the times of the industrial revolution. The essence of development at that time was the clear primacy of the pace of development of the economic sphere over the social and environmental sphere (Fiedor & Kociszewski, 2010, p. 169).

Sustainable development became popular with the definition of the Brundtland Report (World Commission on Environment and Development, 1987). Currently, the term *sustainable development* is understood as socio-economic development in which the process of integrating political, economic and social activities takes place, while maintaining natural balance and the durability of basic natural processes, in order to ensure the possibility of satisfying the basic needs of individual communities or citizens of both the modern generation, and future generations. This definition is based not only on the principle of integrating natural, economic, social and political spheres, but also on the principle of equal access to resources and intergenerational justice (Jeżowski, 2002, p. 47).

The concept of sustainable development is based on the use and conservation of natural resources, as well as the orientation of technologies and institutions to achieve and maintain the satisfaction of human needs of the present and future generations. It should also ensure that society and future generations meet high ecological, economic and social standards within the limits of the capacity of ecosystems, applying the principle of intra-generational and intergenerational justice. Sustainable development understood in this way has three dimensions: ecological, economic and social.

Figure 1.1 illustrates the link between sustainable development and corporate sustainability.

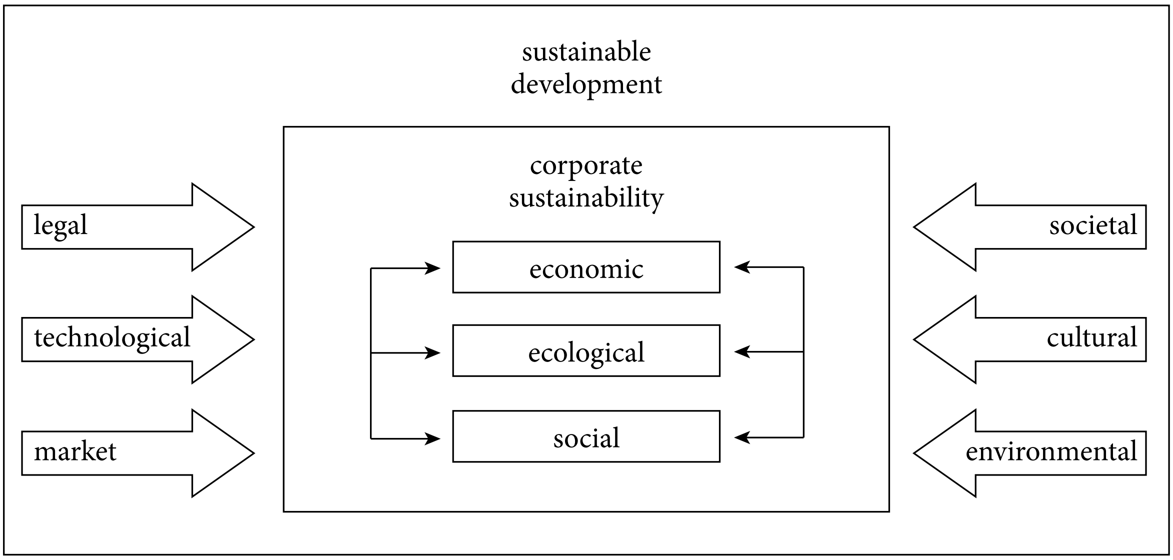

Figure 1.1. Corporate sustainability and its interdependences

Source: Based on (Baumgartner & Ebner, 2010, p. 77).

Sustainable development when incorporated by organizations is termed corporate sustainability and contains three pillars that interact with each other: economic, ecological and social (Ebner & Baumgartner, 2006, p. 13). The sustainable development goals, taking into account the three dimensions, are presented in Table 1.1.

Table 1.1. The goals of sustainable development

Goals	Description
Ecological	• protection of the Earth's atmosphere (limiting climate warming) • not harming nature: preserving species and landscape diversity • sustainable use of renewable resources • balancing the use of non-renewable resources • healthy living conditions (eliminating harmful substances, radiation and noise)
Economic	• stability of the economy, ensuring independent existence with acceptable quality of work • satisfying basic needs through sustainable products (food, housing, clothing, energy) and prices applied • price stability and counteracting concentration and economic power, internalisation of external costs • non-economic sustainability and development cooperation with as little import of raw materials as possible • efficient state budget with sufficient standards providing the society with substantive / collective goods and the appropriate division of income
Social	• democracy of participation and the rule of law in all areas of life • poverty eradication, social security, tackling demographic problems • equal opportunities, integration (e.g. gender of immigrants) • external and internal security, non-violent conflict resolution • protection of human health and quality of life

Source: (Rogall, 2010, p. 47).

The basic idea to incorporate a sustainability aspect into business management should be grounded in the ethical belief of give and take to maintain a successful company in the long-term. As the company is embedded in a complex system of interdependences in- and outside the firm, this maintaining of character should be fulfilled due to the company's commitment in protecting the environment or reducing its ecological footprint and due to the general acceptance of its corporate behaviour by society in- and outside of the firm. Economic sustainability embraces general aspects of an organization that have to be respected—next to environmental and social aspects—in order to remain in the market for long time.

Sustainable development should stimulate the economic growth necessary to create material well-being, taking into account social well-being, justice, security and environmental quality. On the other hand, sustainable development at the enterprise level concerns its functioning through the integration of economic, environmental and social goals. The answer to such a challenge is the implementation of the concept of Corporate Social Responsibility (CSR) within the scope of the enterprises' activities. A modern entity, addressing the challenges of sustainable development, should develop in accordance with the idea of CSR. Such implementations require the expectations of all stakeholders, including society and the environment, to be considered (Różańska, 2014, p. 434).

The term *social responsibility* came into widespread use in the late 1970s, although *corporate social responsibility* is the term that is most familiar to the general public when applied to private, for-profit organizations (Hemphill, 2013, p. 306). CSR is defined as "the parallel satisfaction of the interests of individual stakeholder groups with the limiting condition of achieving an appropriate level of profit (Stępień & Wydymus, 2007, p. 81).

The International Organization for Standardization defines social responsibility (not CSR since their standards are intended to all organizations, regardless of their size or legal structure) within the ISO 26000:2010 as "responsibility of an organization for the impacts of its decisions and activities (include products, services, and processes) on society and the environment, through transparent and ethical behaviour that contributes to sustainable development, including health and the welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behaviour; and is integrated throughout the organization and practised in its relationships (an organization's activities within its sphere of influence)" (ISO, 2010, 2.18).

However, in the literature you can find many definitions explaining the concept of CSR which take into account its various aspects. Selected definitions of CSR responsibility are presented in Table 1.2.