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Kontakt/Contact

ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics
Düsternbrooker Weg 120
24105 Kiel (Germany)
E-Mail: [rights\[at\]zbw.eu](mailto:rights[at]zbw.eu)
<https://www.zbw.eu/econis-archiv/>

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The Connection between IAS/IFRS and Social Responsibility

Stefano AMELIO

University of Bergamo
2 Via Dei Caniana, Bergamo, Italy
stefano.amelio@unibg.it

Abstract. *The aim of the paper is to evaluate the degree of social responsibility arising from the statement of comprehensive income prepared according to IAS/IFRS, to demonstrate whether the values obtained from prospects and from the calculation of the indicators are sufficient to analyze the Company's performance from the perspective of social responsibility and sustainable value or not. In order to achieve the objective of harmonization, the European Union adopted the IAS/IFRS developed by the International Accounting Standards Board (IASB). The research is divided into two sections and the approach used is mainly theoretical and qualitative. In the first part, the financial statements to be prepared according to IAS 1 and IAS 7 and, in particular, the so called statement of profit or loss and other comprehensive income for the period are analyzed by underling the function of the same and by presenting some financial performance indicators. Then, the research highlights how these values obtained are not useful to communicate the company's strategy in terms of social responsibility and sustainable value. In the second part the analyses exposes the concept of social balance. According to the social responsibility view the IAS/IFRS financial statements should be accompanied by the social balance. It becomes crucial to complete the set of financial statements stated from IAS 1 with a social balance as well as the same IAS 1 contemplates. For this reason it is possible to say that the connection between IAS/IFRS and social responsibility is weak.*

Keywords: *framework, IAS/IFRS, performance, social balance, social responsibility, statement of profit or loss and other comprehensive income for the period.*

Introduction

The theory of business management explains how the characteristics and the evolution of the accounting systems in each country are influenced by environmental, economic, legal, political and cultural factors that characterize the local context (Rinaldi, 2014). In relation to this point, the UE has chosen the introduction of a set of accounting principles to be adopted by some kinds of Member countries companies.

In recent years the EU has launched a process of standardization and harmonization of firms' economic and financial communications. In particular, there have been numerous requests for accounting uniformity in order to reduce the cost of capital, increasing the efficiency and effectiveness

of markets and reducing production' costs and analysis of information provided by businesses (Ferraris Franceschi & Cerbioni 2004).

The application of different accounting standards in each member country has given a low degree of comparability of financial statements of European companies, constituting, in fact, a brake on the development of these markets (Amelio, Gavana & Gazzola, 2014).

According to IAS 1 (revised 2007) "financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management's stewardship of the resources entrusted to it" (IAS 1, par. 9).

IAS 1 also states that a complete set of financial statements includes the following documents: "(a) a statement of financial position as at the end of the period; (b) a statement of profit or loss and other comprehensive income for the period; (c) a statement of changes in equity for the period; (d) a statement of cash flows for the period; (e) notes, comprising a summary of significant accounting policies and other explanatory information; (f) a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements" (IAS 1, par. 10). "Many entities present, outside the financial statements, a financial review by management that describes and explains the main features of the entity's financial performance and financial position, and the principal uncertainties it faces" (IAS 1, par. 13).

IAS 1 "Presentation of financial statements" sets "This Standard requires particular disclosures in the statement of financial position or of comprehensive income, in the separate statement of comprehensive income (if presented), or in the statement of changes in equity and requires disclosure of other line items either in those statements or in the notes. IAS 7 Statement of Cash Flows sets out requirements for the presentation of cash flow information" (IAS 1, par. 47).

Alongside the adoption of IAS/IFRS occurred with the EU regulation, it is important to consider the content of the "Conceptual Framework for Financial Reporting" issued by the IASB in September 2010 and currently under revision.

This document introduces the corpus of international accounting standards but it does not represent a real principle and it is not intended to indicate specific accounting treatments for business operations (Moretti, 2004a).

“The IFRS Framework describes the basic concepts that underlie the preparation and presentation of financial statements for external users. The IFRS Framework serves as a guide to the Board in developing future IFRSs and as a guide to resolving accounting issues that are not addressed directly in an International Accounting Standard or International Financial Reporting Standard or Interpretation” (IASplus).

The Framework exposes a set of basic principles, of fundamental and enhancing qualitative characteristics of useful financial information (QC1-QC39), namely:

- Relevance: “Relevant financial information is capable of making a difference in the decisions made by users”.
- Faithfull representation: “To be useful, financial information must not only be relevant, it must also represent faithfully the phenomena it purports to represent”.
- Comparability: “Information about a reporting entity is more useful if it can be compared with a similar information about other entities and with similar information about the same entity for another period or another date”.
- Verifiability: “Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation”.
- Timeliness: “Timeliness means that information is available to decision-makers in time to be capable of influencing their decisions”.
- Understandability: “Classifying, characterising and presenting information clearly and concisely makes it understandable. [...]Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information with diligence”.

As discussed, both in IAS 1/7, both in the Framework, the reference is always to the financial statements, meaning the representation of the financial position, financial performance and cash flows of an entity that is useful to “present and potential investors, lenders and other creditors, who use that information to make decisions about buying, selling or holding equity or debt instruments and providing or settling loans or other forms of credit” (OB2). These principles, then, are compulsory for the preparation of some kinds of financial statements, but not for the preparation of social and environmental reports.

In this perspective, firms are considered only as systems for the creation of economic and financial value for their shareholders (Gazzola & Mella, 2004). In particular, there are various financial performance indicators that, starting from the financial statements prepared according to the IAS 1, could be calculated to measure the economic and financial performance of a company (Gazzola & Amelio, 2014a; Gazzola & Mella, 2004).

In the research, the main purpose is to demonstrate whether the values obtained from the financial statements prospects and, subsequently, the values obtained from the calculation of the indicators are sufficient to analyze the company's performance from the perspective of social responsibility and sustainable value or not. In fact, firms are also an economic social actor which operates in a social environment to which they belong and with which they interact.

For this reason the second part of the research explains the concept of social balance, as a means to interact with all the stakeholders of a firm and not only with the shareholders who are the main recipients of the financial statements prepared according to IAS/IFRS.

In particular, the social-environmental reporting aims to highlight the complex influences that the company exerts on the environment and the social "fabric", enabling various categories of stakeholders to assess performance other than those strictly related to the generation of profit (Cardillo & Molina, 2011).

Despite the non-compulsory nature of social-environmental reporting, there is a two-way link between the traditional accounting and social responsibility: the logic underlying the social report should be read in relation to the national business administration principles that support the traditional accounting.

Research design and methodology

Starting from the previous paragraph assumptions and surpassing the national level to achieve the international accounting standards level, this research aims to understand if there is a connection between social responsibility and IAS/IFRS. In particular, the research question to be analyzed is: is there a connection between international accounting principles adopted by the UE (and consequently adopted by some categories of companies for the preparation of their corporate balances) and social responsibility in terms of influences that the companies exert on the

environment? The aim of the study is to understand the social-environmental utility of the financial statement (corporate balance) prepared according to IAS/IFRS and then to value the IAS/IFRS documentation completeness in relation to the social responsibility profile.

To achieve this goal, a theoretical and qualitative approach was mainly adopted.

The research is divided into two parts: In the first part are analyzed the financial statements to be prepared according to IAS 1 and IAS 7 and, especially, the so called statement of comprehensive income; In particular the study underlines the function of this important element and presents some financial performance indicators. On the other hand, in the second section is exposed the concept of social balance as a means to interact with all the stakeholders of a firm and not only with the shareholders who are the main recipients of the financial statements prepared according to IAS/IFRS.

The adoption of IAS/IFRS in the UE

To surmount the problems related to the difficult comparability of financial statements of European firms, in order, therefore, to come to get universally recognized standards the EU has launched, over the years, a process of harmonization and standardization (Rossi, 2007).

Standardization could be explained in the adoption of a single set of accounting principles that all businesses must uniformly adopt; Harmonization represents the intermediate solution which consists in reducing the variability of accounting rules between different countries, increasing consequently the comparability in accordance with national accounting traditions; with the harmonization, then, there is not the total imposition of uniform rules, but freedom of choice between different options is left to the individual country (Marchi, 2004).

Harmonization and standardization are actually consequential stages of a convergence process that has as its starting point with the harmonization and, as a point of arrival, the standardization (Bandettini, 2006).

The EU followed both stages of the convergence process: it started from an harmonization process aimed to reducing the differences in accounting practices, by issuing two important Directives (Abate, Rossi & Virgilio, 2008; Dezzani, 2006) (in particular the IV and VII Directive, respectively, in terms of the financial statements and consolidated financial statements), applied

differently in the various member countries so that at one point it was no longer adequate to ensure the objective of comparability.

As mentioned, the instrument used was the Directive, a Community act which binds each Member State to which it is addressed to the result to be achieved, leaving the national authorities discretionary margins on the form and methods so that they can take account of specific national features. Directives do not automatically replace the national legislation but oblige member states to adopt, within a specified period of time, actions to conform the national legislation to the Community legislation. Directives, having had the merit of contributing to the achievement of a certain degree of uniformity, have at the same time expressed a number of limitations, in particular:

- the numerous alternatives left to the discretion of individual member states have meant that each country adopted the option most consistent with its accounting culture;
- the time of adoption of the Directives was too long.

More recently, following the Lisbon European Council of 24th March 2000 that pointed up the need to adopt appropriate acts to improve the comparability of financial statements of listed companies, the UE have passed to the stage of standardization.

To achieve this, the EU has adopted the IAS/IFRS international accounting standards developed by the International Accounting Standards Board (IASB), introducing them progressively within each member country.

In particular, the introduction was realized in 2002 with the Regulation (EC) No. 1606/2002, which was followed by the Regulation (EC) No. 1725/2003 and a number of other regulations (so-called "homologation") issued to regulate the practical application of IAS/IFRS into Community. In particular, with the Regulation No. 1606 of 2002, the EU has made IAS/IFRS compulsory for the consolidated financial statements of listed companies from the corporate balance for the current year started from the 1st January 2005, as well as for banks and insurance companies.

The instrument used was the Regulation, that, unlike the Directive, has general application, is mandatory in its entirety and it is directly applicable in all Member States.

IAS/IFRS are not immediately applied in the European Union. They undergo an initial technical examination by a committee of experts named EFRAG (an acronym of the European Financial Reporting Advisory Group) and one of political nature by a committee of representatives of governments called ARC

(Accounting Regulatory Committee). For its Community approval, the document must also pass the scrutiny of the Standards Advice Review Group (SARG), appointed by the European Commission decision 2007/73 / EC, whose function is to advise the Commission on the objectivity and the neutrality of EFRAG. Exceeded then the controls, the accounting policy is approved by Regulation by the ministers of the Union and it obtains immediate effectiveness in all Member States. Also official interpretations SIC are subjected at the same proceedings.

The IAS/IFRS financial statements

IAS 1 states, in the opening lines, that this principle should be applied "in preparing and presenting general purpose financial statements" (IAS 1, par. 2), that "are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs" (IAS 1, par. 7).

It follows that the ultimate objective of the budget does not end with the only true representation of the Company but involves a broader commitment by the editors in order to effectively meet the information needs of the different users involved in a process of economic choice.

In a first approximation, the term "users", also in relation to what the Framework establishes (OB2), is identified in that of current or potential shareholders. In fact, the shareholders are only one category of stakeholders (Freeman, 1984), namely the audience of people who may have some interest in the evolution of the society. For this reason, the budget vision should switch from the corporate balance vision to that of social balance (Gazzola & Mella, 2004).

As consequence, it can be stated that IAS/IFRS, as investor oriented, are aimed at protecting investors (current and potential), for which the financial statements are presented with a predominantly perspective view of financial returns. International accounting standards interpret, then, the prospects in a dynamic key, emphasizing the prognostic ability and considering the net income as an indicator of business performance, especially to estimate the company's ability to generate future profits, identifying any risk that can bring to opt for alternative forms of investment (Balducci, 2007).

As noted above, it can be seen that IAS/IFRS standards requires the drafting of the following reports (IAS 1, par. 10) to define the set of financial statements complete (Dezzani, 2005; Moretti, 2004b):

- a statement of financial position as at the end of the period;
- a statement of profit or loss and other comprehensive income for the period;
- a statement of changes in equity for the period;
- a statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information;
- a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

IAS 1 also provides the possibility that companies present, with these key documents, other documents, that however, are outside the scope of IAS/IFRS and, therefore, their absence is not relevant to the completeness of financial information (additional documents) (IAS 1, par. 13-14):

- a financial review by management that describes and explains the main features of the entity's financial performance and financial position, and the principal uncertainties it faces;
- other reports and statements.

The “statement of profit or loss and other comprehensive income” and the financial performance

To demonstrate whether the values obtained from prospects and also the values obtained from the calculation of the indicators are sufficient to analyze the Company's performance from the perspective of social responsibility and sustainable value or not, it is important to start the study by analyzing, in particular, the second prospectus regulated by IAS 1: statement of profit or loss and other comprehensive income for the period.

The IAS 1 provides a single document setting out the "extended" income for the period (total comprehensive income, TCI): the name of the prospectus is “statement of profit or loss and other comprehensive income”. There is a single result: the expanded income, which is an indicator of the overall performance of the company (Bamber, Jiang, Petroni & Wang, 2010).

The statement of profit or loss and other comprehensive income illustrates the financial performance and results of operations of a company for a period of time, therefore, it includes both realized and unrealized values (Bhamornsiri & Wiggins, 2001). The comprehensive income is the change in equity during a period resulting from transactions and other events, other

than those changes resulting from transactions with owners in their capacity as owners (IAS 1, par. 7).

In the statement, the result is an income that includes the net income (obtained from the balance between revenues and operating costs) and changes in value of assets that are recognized only to the equity: the other comprehensive income - OCI (Fernández & Arana, 2010; Goncharov & Hodgson, 2008). In this way, the performance is not only potential but it is enlarged to all the elements that meet the definition of income and expenses.

According to the IAS 1 revised, since January 2009 and until the drafting of the statements with annual periods closing on 30 June 2012, there were two alternatives of presentation (Van Cauwenberge & De Beelde, 2007; Solomon & Dragomirescu, 2009):

- a) a single statement of comprehensive income, that presents all items of income and expense recognised in the period or
- b) two separate statements:
 - a statement displaying components of profit or loss (separate statement of comprehensive income) and
 - a statement of comprehensive income that begins with profit or loss (bottom line of the separate statement of comprehensive income) and displays the items of other comprehensive income for the reporting period (IAS 1, par. 81).

Editors could then choose whether to present one statement, which contains both types of information, or two separate statements.

The EU Regulation n. 475/2012 has brought some changes to IAS 1 with the aim to achieve a greater clarity. These changes took effect from the commencement date of companies first financial year starting on or after 1 July 2012.

First of all, the title of the section, and consequently the title of the statement, has changed from "Statement of comprehensive income" to "statement of profit or loss and other comprehensive income".

In addition, the following paragraphs have been added:

- par. 10A: "An entity may present a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section. An entity may present the profit or loss section in a separate statement of profit or loss. If so, the separate statement

of profit or loss shall immediately precede the statement presenting comprehensive income, which shall begin with profit or loss”.

- Par. 81A: “The statement of profit or loss and other comprehensive income (statement of comprehensive income) shall present, in addition to the profit or loss and other comprehensive income sections:

(a) profit or loss;

(b) total other comprehensive income;

(c) comprehensive income for the period, being the total of profit or loss and other comprehensive income.

If an entity presents a separate statement of profit or loss it does not present the profit or loss section in the statement presenting comprehensive income.

How is it possible to note, paragraph 10A replaces paragraph 81, which was deleted. For this reason it is possible to say that there still exists the possibility to draft the statement by using alternately:

- a single statement of profit or loss and other comprehensive income (the so called statement of comprehensive income) subdivided into two sections: the profit or loss section and the other comprehensive income section; in this statement of comprehensive income it is necessary to present, in addition to the profit or loss and other comprehensive income sections, the profit or loss, the total other comprehensive income and the comprehensive income for the period, being the total of profit or loss and other comprehensive income.

- two statements: a separate statement of profit or loss and a statement presenting comprehensive income; in this case, the profit or loss section mustn't be presented in the statement presenting comprehensive income.

In addition, there are two options to present the OCI components (IAS 1, par. 91):

- Net of tax related effects.

- Before related tax effects.

In both cases it is required to disclosure the effect of tax for each component of the other comprehensive income in the notes.

An entity shall present an analysis of expenses using a classification based on either (IAS 1, par. 99):

- the nature of expenses or

- the function of expenses within the entity,

whichever provides information that is reliable and more relevant.

Also in this case, IAS 1 gives discretion to the writer of the statement; The choice between the function of expense method and the nature of expense

method depends on historical and industry factors and the nature of the entity.

The result of the statement of comprehensive income is the comprehensive income. The statement of comprehensive income illustrates the financial performance and results of operations of a particular company or entity for a period of time.

The statement of comprehensive income aggregates the income statement and the other comprehensive income (items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs).

It's important to understand that the comprehensive income includes traditional net income and also the effects of changes recorded in other comprehensive income (Bini, 2007). As we know the difference between net income and comprehensive income is known as other comprehensive income. Other comprehensive income includes items such as: changes in revaluation surplus; actuarial gains and losses on defined benefit plans; gains and losses arising from translating the financial statements of a foreign operation; gains and losses on remeasuring available-for-sale financial assets; the effective portion of gains and losses on hedging instruments in a cash flow hedge.

According to IAS 1, the statement doesn't have a rigid content in fact the person who drew it up has broad discretion in choosing the scheme considered most appropriate for representing the operating performance and the economic result of the period.

Despite this, IAS 1 states that in addition to items required by other IFRSs, the profit or loss section (in case of single statement) or the statement of profit or loss (in case of two statements) shall include this set of line items (IAS 1, par. 82):

- (a) revenue;
- (b) finance costs;
- (c) share of the profit or loss of associates and joint ventures accounted for using the equity method;
- (d) tax expense;
- (e) [deleted] a single amount comprising the total of:
 - (i) the post-tax profit or loss of discontinued operations and
 - (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation;

- (ea) a single amount for the total of discontinued operations;
- (f) [deleted] profit or loss;
- (g) [deleted] each component of other comprehensive income classified by nature (excluding amounts in (h));
- (h) [deleted] share of the other comprehensive income of associates and joint ventures accounted for using the equity method;
- (i) [deleted] total comprehensive income.

In relation to the statement presenting comprehensive income (in case of two statements), it shall present line items for amounts of other comprehensive income in the period, classified by nature (including share of the other comprehensive income of associates and joint ventures accounted for using the equity method) and grouped into those that, in accordance with other IFRSs (IAS 1, par. 82A):

- (a) will not be reclassified subsequently to profit or loss; and
- (b) will be reclassified subsequently to profit or loss when specific conditions are met.

It must also be shown the following distinction (IAS 1, par. 81B):

- (a) profit or loss for the period attributable to:
 - (i) non-controlling interest, and
 - (ii) owners of the parent.
- (b) comprehensive income for the period attributable to:
 - (i) non-controlling interest, and
 - (ii) owners of the parent.

In addition, the editor can add line items, headings and subtotals if he considers that this representation is relevant to a better understanding of the corporate balance (IAS 1, par. 85).

The statement of profit or loss and other comprehensive income for the period, together with some of the values exposed in other statements, allows for the calculation of a suitable system of economic and financial ratios that translate the values produced into performance indicators in order to assess whether or not the economic-financial objectives of the business and profit organization have been achieved (Gazzola & Mella, 2004) from the point of view of the management and also to investigate the convenience in making an investment from the point of view of an investor (Gazzola & Amelio, 2014b). In particular these indicators allow some categories of stakeholder (Donaldson & Preston, 1995; Pellicelli, 2002) to assess the corporation's efficiency.

In particular, the main and most useful ratios that could be used by the stakeholders (in particular by the shareholders) are:

- ROE (return on equity): it is calculated as the ratio between the net income and the equity.

- ROE_CI (return on equity – comprehensive income): it represents the ratio between the total comprehensive income and the net worth (equity).

In both cases, ROE measures the profitability of a company for the investor, but, while in the first case it takes into account only the values that are under the control of the manager, in the second one the numerator of the ratio also includes all those values that take the name of other comprehensive income and that, as explained above, represent the changes in the value of the assets.

- EPS (earnings per shares): it is calculated as the net profits divided by daily average shares outstanding; by this way, this indicator tells the shareholder what the profit is for every share that they own.

In order to better understand how the three ratios are calculated, it could be interesting to make a concrete example by considering the corporate balance (30 June 2015) of an Italian listed company (Juventus Football Club S.p.A.). The values to be considered to calculate the ratios are:

- from the statement of profit or loss and other comprehensive income for the period: the net income (2,298,263 €) and the total comprehensive income (2,091,514 €);

- from the statement of financial position as at the end of the period: the equity or net worth (44,645,444 €);

- from the notes: the average shares outstanding during the year calculated as the average number of shares outstanding, weighted according to the days of circulation (1,007,766,660).

The results of the calculation of the ratios are summarized in the following Table 1.

Table 1. ROE, ROE_CI and EPS (Juventus Football Club S.p.A., 2015)

Ratio	Formula	Value
ROE	$[(2,298,263)/(44,645,444)]*100$	5.15%
ROE_CI	$[(2,091,514)/(44,645,444)]*100$	4.68%
EPS	$[(2,298,263)/(1,007,766,660)]$	0,002281 €

The use of ROE_CI as an alternative to ROE commonly calculated depends on the role that is attributed to the other comprehensive income (and consequently the total comprehensive income) compared to net income. In particular, it is interesting to understand whether the OCI provides additional information for the evaluation of financial performance with respect to the simple net income or not (Gazzola & Amelio, 2013).

In this regard, it is possible to highlight two opposite guidelines:

- The OCI (and the TCI) provide more information than the net income, thereby accepting that the business performance is not limited only to the performance under the control of the manager. These studies also demonstrate that the net income is not the only useful indicator for the performance appraisal (Biddle & Choi, 2006; Cahan, Courtenay, Gronnewoller & Upton, 2000);
- The OCI (and the TCI) do not have a greater informational potential than the net income and the use of the historical cost is a key element (Belkaoui, 1992; Cheng, 1998; Dhaliwal, Subramanyam & Trezevant, 1999; Ijiri, 1975; Kanagaretnam, Mathieu & Shehata, 2009; Ramond, Batsch & Casta, 2007; Zülch & Pronobis, 2010).

According to the first guideline (the TCI provides more information than the net income), in relation to the example, the investors could evaluate the investment on the basis of ROE_CI less favorably than investors who adhere to the second guideline (the TCI does not have a greater informational potential than the net income). Conversely EPS reveals that (on average) each share would get a dividend of 0,002281 € per share.

On the basis of the studies listed above, most of which analyze the correlation between the CI and the market value of the company, the results are conflicting and have more than little critical elements. Therefore, it is difficult to conclude that the new quantities introduced by the European legislator (in adherence to what has already happened in the USA), are relevant for the evaluation of corporate performance or not and, in particular, it is arduous to state that they own a greater information content than that restrained in the net income. As seen, the concrete values of ROE, ROE_CI and EPS of Juventus Football Club S.p.A. do not say anything about Juventus Football Club S.p.A. social responsibility.

The “statement of profit or loss and other comprehensive income”, the financial ratios and the social responsibility

The values contained in the statement of profit or loss and other comprehensive income and in the other statements whose drafting is required by IAS 1, par. 10 to define the set of financial statements complete derive only from monetary exchanges with third economies and for this reason:

- they don't derive from non-monetary ties with the social environment (for example: employment, pollution);
- they don't contain ethical values;
- they don't explicit the ability of the firm to operate compatibly with the environment.

To evaluate a company in full, namely to conduct a comprehensive assessment, it is not enough to rely solely on the indicators above, and consequently only on the compulsory statements required by IAS 1. To evaluate the overall impact of the firm's activity on the community (Hill & Jones, 1992), it is important to expand the audience of these documents to all the stakeholders and not just to the shareholders. The companies, in fact, are not only systems for the production of value but also economic social actors which operate in a social environment to which they belong and with which they interact, not only through a system of monetary and financial exchanges but also through physical, human and communication flows that produce knowledge, trust and reputation (Gazzola & Mella, 2004).

For this reason, it becomes fundamental for the companies' success and for a better evaluation from the stakeholders to support the corporate balance (with the statements required by IAS 1, par. 10) with a new document, the social balance (Cardillo & Molina, 2011; Cavicchi, Dalledonne, Durand & Pezzato, 2003; Wilson, 1999) in a perspective of social responsibility reporting.

In recent decades the social reporting had a significant expansion; This led to define the relationship between ethics and economics, in order, for companies, to integrate the ethical dimension within their own activities (Maggi, 1992).

The social responsibility request is joining that of dividends and economic values (Hinna, 2002).

This led to the birth of numerous study groups, who made several proposals for the preparation of social reporting documents (Bandettini, 2006; Orlandini, 2008). In particular, it is possible to identify different paths of development in the international arena (mainly in countries such as USA, UK, France, Germany and Italy).

In relation to methods/documents to be used in the social responsibility reporting, the main proposals are as follows:

- The Copenhagen Charter, a management guide to the stakeholder reporting;
- Accountability 1000 (AA1000);
- GRI (Sustainability Reporting Guidelines on Economics, Environmental and Social Performance);
- SA8000 (Social Accountability);
- CSR (Europe Voluntary Guidelines for Action on CSR Communication and Reporting);
- GBS (Social Balance drawing principles);

- Q-Res Project (Centre for Ethics Law and Economics);
- CSR SC Document (Italian Ministry of labour and social policy);
- BITC (Business in the Community);
- LBG (London Benchmarking Group);
- Business Impact.

The proposals listed above, allow us to define the essential features of the social balance but before proceeding, it is important to define the term “social balance” starting from the general concept of balance. The term balance can have different meanings depending on the purpose for which the document is drawn up and the objects that have been taken into account. In fact we can have corporate balance, extraordinary balance, consolidated balance, balance of mission, social balance, sustainability reports. The social balance is the output of a process of social responsibility reporting and it allows to make known the value created in the face of the social costs incurred (Di Stefano, 1990).

It often happens that the documents resulting from the reporting process are named differently, but with similar content, or, on the contrary, that documents with the same designation present completely different content. In relation to the names used in the operational reality, we can find in particular the following expressions:

- social balance;
- balance of mission;
- balance of mandate;
- sustainability report;
- balance of participation;
- environmental report.

In the following pages, for a question of convenience, the term social balance will be used in a broad sense, including in this term a wider range of documents similar to it, but not identical. In particular, we can say that it is still difficult to clearly delineate the perimeter of the individual documents that are part of the process of social responsibility listed above and, to avoid to go into the difficult task to highlight the distinctive features of the same, it was decided to use primarily the term “social balance” and consequently to use the other terms as synonyms.

The company, therefore, becomes responsible not only towards shareholders but also towards stakeholders. In doctrine the concept of CSR (corporate social responsibility) has been developed as opposed to the shareholder theory (Friedman, 1970) where the only goal is to generate the profit for shareholders, i.e. to maximize the economic value of the shares: the

indicators above and mainly the EPS responds precisely to this theory. Therefore, there has been the passage of the focus from profit to value creation for stakeholders (Hill & Jones, 1992). The result is the transition from the traditional notion of produced value for stakeholders to the sustainable value for the social, political and physical environment. Only the continuous production of internal economic value (revenues, costs) and external economic value (quality, value, satisfaction) enables the company to survive in the environment (Costanza, 2000). It is not enough to generate economic profit, but it must be a profit achieved by balancing short-term priorities and needs of the long term; this is the only way the company's growth strategies coincide with the needs of sustainable development (Cillerai, 2002). Socially responsible behavior requires the spread of a corporate culture oriented to dialogue with stakeholders (Kotter & Heskett, 1992), with the aim to create an environment that will inspire confidence and the satisfaction of each other's needs (Chirieleison, 2002).

From the perspective of CSR, it is necessary to move from shareholder theory to stakeholder theory (Freeman, 1984) but to do this it becomes important to consider companies as social systems. In this sense, the companies not only have to meet the interests of shareholders, but they must try to meet the demands of the various stakeholders with whom they systematically interact; only in this way the company will have a durable life and will create value over time (Gazzola, 2012).

Adopting social responsibility practices and therefore sustainable growth actions, leads to a reduction of short term profit but it points the way to a long term profit that is based on solid foundations.

Such practices, being costly for the company, could therefore lead to a reduction of net income and thus to a worsening of ROE, ROE_CI and EPS indicators in the short term.

As regards to the long term, it is not possible to state that the financial return will grow: there are various research on the relationship between CSR and financial performance but the results are conflicting: some studies have reported a positive relationship (Ziegler, Schroeder & Rennings, 2007; Waddock & Graves, 1997), others a negative one (Wright & Ferris, 1997), others no relationship (McWilliams & Siegel, 2000, Schröder, 2007). When the CSR is fully integrated in companies and in organizations' operational management practices (Horobet & Belascu, 2012), it becomes complicated to try to measure its effects separately. To do so, it should be possible to keep all other factors constant and then measure the performance before and after the adoption of socially responsible practices. Nevertheless, be socially

responsible can strengthen a company's reputation (Schaltegger & Figge, 2000) and, consequently, can create a long term competitive advantage, with positive consequences for sales (Molteni, 2004) and, consequently, for the results of the statement. The creation of social value of the company becomes a necessary condition to maintain a healthy process of creating economic and financial value.

If the statement of profit or loss and other comprehensive income is the tool to highlight the economic and financial values, the document to report and communicate the responsible management for sustainable development is the social balance (Rusconi, 2007; Vermiglio, 2000).

Conclusions and implications

As previously stated, the social balance shifts the attention from the creation of economic and financial values by the productive organization to the creation of social and environmental values by the organization as a social agent (Gazzola & Mella, 2004).

The indicators described above (ROE, ROE_CI and EPS) are not sufficient to measure social (Kaplan & Norton, 1992) performance (Clarkson, 1995); in order to do this, it is necessary to build some indicators calculated by using the elements explained in the social balance; only in this way it becomes possible to assess the company's capacity to create social sustainable value. The problem is that these indicators are difficult to identify (Tencati, 2002). Despite this, several authors (Bailey, 1982; Schmid-Schoenbein, Braunschweig & Oetterli, 2001; Zeithaml, Parasuraman & Berry, 1990; Welford, 1999) have identified the following indicators that may be useful for our purposes:

- The frequency of voluntary resignations;
- The absentee rate;
- The movements from one work category to another;
- The hours of internal professional training;
- The frequency of worksite incidents and professional illnesses;
- The proportion of female to total personnel;
- The indicators of safety;
- The crime rate;
- The presence of certifications approved at the national or supranational levels.

Contextualizing these findings at the level of international accounting standards, the IAS 1, par. 14 states that "Many entities also present, outside

the financial statements, reports and statements such as environmental reports and value added statements, particularly in industries in which environmental factors are significant and when employees are regarded as an important user group. Reports and statements presented outside financial statements are outside the scope of IFRSs”.

This demonstrates the increasing attention that this issue is internationally cladding. Adhering to the thesis that includes the presentation of the social balance as a social need and not just as a choice, the international current situation is not so good. The preparation of this document, as well as nationally, even at international level, is not mandatory; furthermore, if the company chooses to draw up the social balance, it is outside the scope of IFRSs and consequently it does not meet a standardized regulation that would allow to reach a socially international comparability of social statements.

As evidence of the growing attention to social responsibility themes, on October 2014, the European Parliament and the Council adopted the Directive 2014/95/EU, as part of the harmonization process of accounting procedures: it is important to underline that this Directive doesn't change IAS/IFRS accounting rules; The Directive, which requires an act of transposition by individual Member States, will be relevant only to certain companies (large undertaking public-interest entities and public-interest entities which are parent undertakings of a large group): the recipients of the Directive do not coincide exactly with the companies adopting IAS/IFRS, for which, in terms of IAS/IFRS-social responsibility relationship, on the basis of the conducted analysis, the connection is still weak. Moreover “Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with the Directive by 6 December 2016” and they “shall provide that the provisions referred to in the first subparagraph are to apply to all undertakings within the scope of Article 1 for the financial year starting on 1 January 2017 or during the calendar year 2017”, so the application is not even immediate.

The Directive states that “In order to enhance the consistency and comparability of non-financial information disclosed throughout the Union, certain large undertakings should prepare a non-financial statement containing information relating to at least environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters. Such statement should include a description of the policies, outcomes and risks related to those matters and should be included in the management report of the undertaking concerned. The non-financial statement should also include information on the due diligence processes

implemented by the undertaking, also regarding, where relevant and proportionate, its supply and subcontracting chains, in order to identify, prevent and mitigate existing and potential adverse impacts". The recipients of the Directive are "large undertakings which are public-interest entities and to those public-interest entities which are parent undertakings of a large group, in each case having an average number of employees in excess of 500, in the case of a group on a consolidated basis. This should not prevent Member States from requiring disclosure of non-financial information from undertakings and groups other than undertakings which are subject to this Directive". The Directive has considerable importance: it introduces the mandatory preparation of the social balance for certain categories of companies, contrary to the current situation (and in any case until 2017), although it does not define a single framework of reference (very useful for the international comparability).

Companies, in preparing the social balance, have, over time, improved the quality disclosures. despite this, as already mentioned, companies continue to adopt various models of reporting, negatively affecting the comparability and understandability of the documents that, on the contrary, exist at corporate balance level thanks to IAS/IFRS. Also the cited Directive 95/2014 attributes to the companies wide discretion in choosing the principles to be adopted in the preparation of the social balance ("In providing this information, undertakings which are subject to this Directive may rely on national frameworks, Union-based frameworks such as the Eco-Management and Audit Scheme (EMAS), or international frameworks such as the United Nations (UN) Global Compact, the Guiding Principles on Business and Human Rights implementing the UN 'Protect, Respect and Remedy' Framework, the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, the International Organisation for Standardisation's ISO 26000, the International Labour Organisation's Tripartite Declaration of principles concerning multinational enterprises and social policy, the Global Reporting Initiative, or other recognised international frameworks"): this, as mentioned, reduces international comparability.

The sustainability report is a free document in terms of content, however, it would be appropriate to provide an international standard scheme (Cardillo & Molina, 2011). Only by following this path, we could get the full understanding of the company, as well as we would achieve that goal of standardization pursued by the EU.

On these basis, the research can be further extended by introducing quantitative methods in order to understand the level of adoption of the

social balance by companies subjected to IAS/IFRS, namely the level of respect of par. 14 mentioned above.

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