

## Efficiency in Corporate Governance – the Sustainability and Accountability Nexus

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### Abstract

*Corporate governance techniques and their efficiency resonate on both the entity's financial indicators and also on non-financial results. Over the past few years, the quality of the managerial decision is measured by a range of indicators defined in correlation with the nature of the entity's operations, the economic sector of the activity, acknowledging the regulations in force or taking into consideration various political reasons.*

*This paper is concerned on assessing the causal relationship between the quality of managerial decision in Romania and compliance to the global regulations on sustainability and claiming responsibility. At the same time, debates regarding the act of accountability or the process of decision making, as the essence of the integrated corporate system, should be explored in order to bring added value to the economy of an entity.*

**Key words:** sustainable development, accountability, sustainability regulations

**J.E.L. Classification:** K20, O50.

### 1. Introduction

The current economic environment is boosted by the companies' ability to capture opportunities and manage associated risks to overcome their performance. The quality of managerial decision is subject to significant challenges and is permanently quantified through various indicators, such as sustainability and accountability.

In the current competitive landscape, development is defined by the ability of an entity to „make a difference” and to consolidate its market position. In such a context, the relationship between sustainability and responsibility gets a dual character. On the one hand, the manner in which managers assume responsibility in implementing an effective managerial act is directly reflected in the development of business strategies, in the fulfillment of the company’s objectives and, thus, in sustainability. On the other hand, sustainability requires and reflects responsibility, transposed through the physical form of a managerial statement about the company's non-financial and financial performance.

Sustainable development at the conceptual level is the implementation of a coherent and consistent set of strategies in the social, economic and environmental spheres so as to set the premises for raising the living standards and promoting a clean environment both in the current period and in future.

### 2. Sustainability and accountability – historical review regarding the concepts

Sustainable development and its regulatory framework are closely linked to the Declaration of the United Nations Conference on Human Environment in Stockholm (1972) and the Rio Declaration on Environment and Development (1992) presented at the first and second global

environmental conferences. The two statements represent "signal achievements" (Handl, G. 2012) and are considered to be milestones in defining the "modern era" in international environmental legislation (Sand, 2007). At the same time, the statements mark three periods widely debated in literature. The period of time preceding of the Stockholm Declaration is called by Sand the "traditional era" (Sand, 2007, p. 31) and by Weiss's, the "early glimmers" (Weiss, 2011) and is identified by the formation of territoriality and reciprocity states.

The development of the environmental regulatory framework was set in motion in 1972 when issues such as economic development and its environmental impact began to be debated and analyzed. "The modern era", as it was called by Sand, is characterized by public awareness of the environmental disaster risks caused by economic development. Alerts on these inherent risks, enhanced by poorly regulated economic development have been issued by research studies such as those centralized by Mitchell J., 1999, Gaskins, R., 1989, NASA, and the media. During this period, new global institutions were set up to develop a strategy focused on risk assessment and the creation of both legal instruments and a functional network at international level for environmental protection in the context of economic development. The first intergovernmental organization for environmental protection was the United Nations Environment Program (UNEP) based in Nairobi, Kenya. At the same time, the contribution of non-profit organizations was acknowledged to be significant in international environmental issues, as Betsill et. al. emphasized (2008), as well as the input provided by the private sector, debated for a long time both at the level of the monitoring institutions (GEF, 2013) and in studies such as that of Bled (2009).

The subsequent period of the 1992 Rio Declaration was dubbed by Sand as the "Post-Modern Era", inspired by Lyotard's perception of the corresponding literature trend, when "mobilizing myths" lose credibility. Environmental regulations have lost the magnitude and mobilizing nature because of major accidents produced in the context of economic development. Thus, pragmatism and the measurable effectiveness of the regulatory framework, transposed in compulsory statements on compliance, are important.

Starting 1992, the private sector has become an important actor in the current economic landscape. The principles of sustainability have begun to be implemented by private entities as a part of their own development standards and practices and, in time, they have become a competitive statement. The developed companies have reinforced the importance of internal „good practice” codes as a way of implementing the International Organization for Standardization (ISO), and have acknowledged the responsibility for sustainable development as part of managerial policy. In terms of regulations on sustainability in the private sector, the reference is set by the United Nations initiatives to create the Global Compact in 1999, the Global Responsibilities Index in 1997, the Sustainability Report Guidelines in 2002, to promote the correlation between sustainability and financial growth and the importance of public-private partnerships, as well as the establishment of „sustainable investment” principles in 2006.

The balance of objectives proposed at the Rio conference was assessed in 2012 at Rio + 20 Summit 2012. The objectives initially formulated have been reformulated in a document entitled "The future we want" (United Nations 2012). Among the points transposed in the vision of the future, issues like the development of scientific research and innovation for sustainable development are stressed to be of great interest: "We recognize the critical role of technology as well as the importance of promoting innovation, particularly in developing countries. We invite governments, as appropriate, to create enabling frameworks that promote environmentally sound technology, research and development, and innovation, including in support of green economy in the context of sustainable development and poverty eradication." (United Nations 2012)

In the practice of the strategy proposed for the next decade, the Union has set five major objectives for sustainable development: employment, innovation, education, social inclusion and the environment / energy. In order to comply with the unitary vision, Member States have adopted their own national targets in these areas (European Commission, 2010).

At the same time, in 2010, the United Nations Conference on Millennium Development Goals took place. The participant states agreed to implement 8 anti-poverty targets in underdeveloped or developing countries. In the autumn of 2015, the United Nations published 17 global sustainable development goals, called SDGs, which were to be implemented by 2030. These targets replace the 8 Millennium Development Goals, which expired in 2015. The 17 Global Objectives are:

Figure no. 1. The global sustainable development goals



Source: (United Nations)

### 3. A brief incursion into the Romanian regulatory framework on sustainability

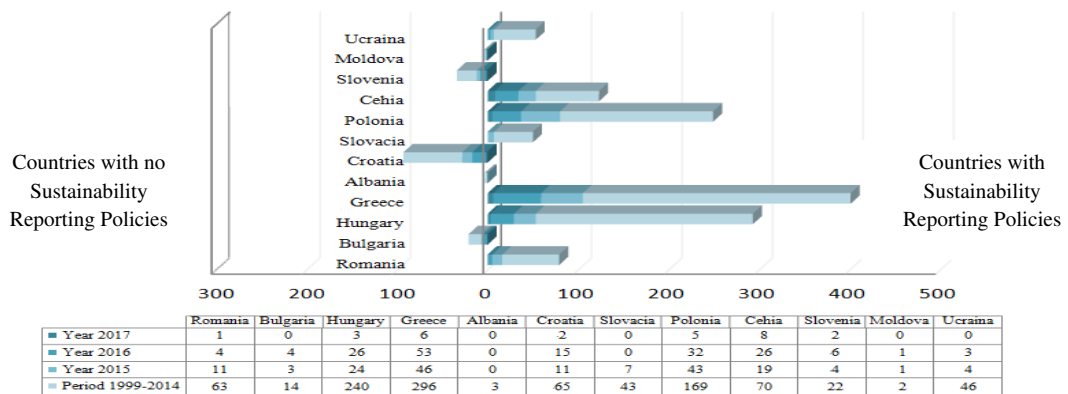
In Romania, the concept of sustainable development and the statement responsibilities deriving from it were only recently transposed into the legislative framework. In 2016, the Order 1938/2016 was approved by the Ministry of Public Finance.

The compulsory characteristic of sustainability reporting has been implemented in our country in the sense of complying with the EU Directive 95/2014. Issuing statements is mandatory for public interest entities with more than 500 employees and is presented as a non-financial managerial commitment, attached to the annual financial statements. The declarative goal is to understand the entity's development, performance and impact on the environment, society and staff, respect for human rights, fight against corruption and bribery.

The new regulatory framework transposed into Romanian law includes "comply-or-explain" regulations, which entail managerial responsibility in explaining any deviation from the general regulatory framework in terms of sustainability reporting. According to the new regulations, the managers of such entities have to explain any specific circumstances that may develop into specific situations of noncompliance to the regulatory reference.

According to United Nations statistics, in Romania there have been issued sustainability statements by local acting companies, based on voluntary initiatives. The primary motivation of these companies for reporting was compliance with the European regulatory framework for increasing transparency in business, in the context of the international competitive landscape ([www.csrreport.ro](http://www.csrreport.ro))

Figure no. 2. Evolution of the number of sustainability reports, categorized by country and year of issue



Source: Own analysis based on the GRI Database indicators

The present study was focused on sustainability disclosure. We analyzed the statistics data based on "country reports" issued for Romania, by comparing indicators for Romania and other central and eastern European countries. According the above chart (Figure no.2), our country is at an early stage in promoting business transparency. Nevertheless, the degree of implementation of regulations regarding sustainability and the voluntary reports issued by a number of private Romanian companies sets the premises for compliance to the global regulatory framework regarding sustainability. The situation can be improved by increasing the spectrum of the reporting entities and by implementing some control levers regarding compliance with the legislative framework.

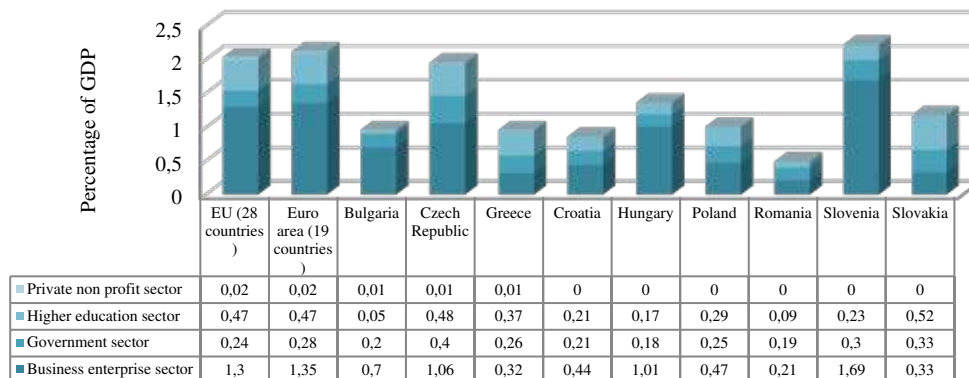
#### 4. Issues concerning research and innovation in the context of sustainable development in Romania

Taking into account the global goals for research and innovation, or development, the present study focused on the analysis of the expenditures allocated in this direction in Romania. We used as reference the data provided for the year 2015, the most recent year for which statistical data were reported at the date of this paper.

Expenditure on research and development (the R&D indicator) include the resources allocated to raising knowledge, including science, culture and the development of new technologies. The statistical data collected for the analysis referred to the expenditure allocated to each business enterprise sector (EBRD) regardless of the source of funding. The nonprofit private sector, higher education, government sector and enterprise sector were targeted.

Innovation in Romania's business sector is still modest (Dachin et.al. 2015), both in the public and private sectors. The level of spending on R & D relative to GDP in 2015 was about 0.5% of GDP. This is well below the proposed EU average of 2% of GDP and is the lowest among the countries in the region. In addition, innovation in academic research is much lower than in other sectors, as can be seen in the figure below.

Figure no. 2. Research and development expenditure, by sectors of performance, % of GDP



Source: Own analysis based on Eurostat indicators, 2015

The statistics are all the more worrying as the reports on the number of graduates in higher education and the situation of school abandonment in Romania are taken into account. Although the limitations of research in this direction are significant due to the lack of statistical data disseminated in the national public sector, the European statistics place the share of higher education graduates in the total population of 15-64, slightly over the half of the European Union, 2013 about 15.1%. (Monitorulsocial.ro). The same source captures a possible cause of this, namely that about 19% of institutionalized young people are prematurely dropping out of education or professional rates.

The abandonment rate resonates directly on the poverty indicators, meaning that a share of 19.5% of people working and living "at the poverty line" of the total active population aged 18-64 years. (Monitorulsocial.ro)

## 5. Conclusions

Romania is an emergent country and the global sustainability goals set by the United Nations members, also need to be implemented locally. Romania has set the premises for compliance with the global requirements in this area, by implementing the regulatory framework for sustainability reporting both in the public and private sectors. Although the boundaries of the statement responsibilities are quite extensive, the intent for compliance is stimulated by the private sector initiative for business transparency. Thus, besides the financial results of the indigenous entities, directly quantifiable in the realization of the gross domestic product, the evaluation of non-financial indicators of the business environment also has a special significance. The impact on the environment, social, political, development and sustainability will be increasingly scrutinized in each state. According to the results synthesized in the present paper, it can be stated that Romania faces the need to gain ground in implementing sustainable policies in terms of sustainability and accountability, from the perspective of analyzing aspects such as research and innovation.

Impact and collective awareness studies focused on increasing the degree of transparency and public communication of the entities operating in Romania, both in the public and private sectors, could be a key factor for sustainable economic growth focused on efficient risk prevention.

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