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Nonfinancial Reporting, Component of Modern Integrated Reporting¹

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Abstract: The sustainable development of the business environment requires a permanent connection between it and the community through the lens of social responsibility and environmental issues. Society in general and the business world in particular are used to classical financial reporting, which in principle aimed at a financial accounting analysis of financial performance with the aim, first of all, of complying with certain legal requirements (eg annual financial statements) and secondly of to periodically present the financial achievements to the interested actors (shareholders, investors, partners, authorities and government institutions, etc.), in order to know the results and the real financial position of the companies at a certain moment. Simultaneously with the expansion of multinational companies and the extent of globalization, traditional financial reporting began to give way to non-financial reporting, which, in addition to classic users, is increasingly demanded by employee representatives and members of the communities where these companies operate. As a result, the need for external reporting of information, so-called non-financial, has arisen, which includes the most important aspects regarding: environment; attitude and responsibility towards employees; human rights; the anti-corruption policy.

Keywords: community; employees; environment; multinational companies; non-financial reporting; performance; social responsibility

JEL Classification: F63; M14; M40; Q56

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1. Introduction

The recent history characterized by the pandemic crisis superimposed on the energy crisis and the warlike tendency embraced by some states, has demonstrated that above the financial gains, for any company, small or large, the viability of business in connection with society, through relations with all interested parties, is important which compose it.

Companies have started to realize that their image and reputation (Pirnea et al., 2011) depends a lot on the way in which the objectives regarding social responsibility are presented to the public and how to achieve them.

The importance of communicating the involvement of companies in solving social and environmental problems can be found in the competitive advantages both internal (increasing efficiency), but especially external (increasing reputation), making the community aware of the place and importance of the company, contributing to strengthening trust.

Trust is the basic component of true and effective leadership, perhaps the most important from the perspective of social need, its lack generating bribery, fraud, deception, affecting social responsibility.

Building trust, between society and the business environment, can only be done by popularizing companies' social responsibility policies, in order to create a biunivocal relationship of mutual assistance in promoting these policies.

In response to global crises, reporting, in the context of globalization and sustainability, requires a rethinking of the form and methods of reporting information, both to shareholders and especially to stakeholders, the current and future trends being to expand traditional reporting by adding at least information on social and environmental aspects,

Reporting to stakeholders, as they are the most interested and affected by these policies (Freeman, 2010), is one of the factors that encourages and generates their involvement in the companies' activities, and the most efficient form, besides dialogues and panels with them, to give them the opportunity to get involved in the strategic decision-making of the companies.

2. Data Analysis. Theoretical Foundation

In the context of globalization, in the conditions in which social responsibility and sustainability enter the global logic of sustainable development, as is natural, the accounting profession is the one that must prepare the ground for the reporting of information, financial and non-financial, to benefit shareholders and at the same time to be meaningful and meet the needs of the stakeholders.

If in the specialized literature, over time, non-financial reporting has been viewed from different perspectives, from a regulatory point of view, it has evolved quite a bit, from voluntary requirements to relatively mandatory ones, currently there is no reference unanimously accepted internationally.

Analyzing the topic of non-financial reporting bibliographically, we find that the most debated areas refer to incentives, benefits for employees and the community, national reporting practices, but also comparative studies between the practices used in different countries.

The institutionalization of non-financial reporting was primarily the result of stakeholder pressure (Guşe et.al., 2016), which forced companies to present information about their involvement in solving social and environmental problems, initially voluntarily and over time

Somewhat standardized mandatory reporting appeared in France and Denmark, with certain requirements and for certain entities, lacking uniformity and completeness.

The bibliographic analysis revealed a special interest of the research, mainly in two directions:

-focusing on a specific state such as Romania (Fărcaş, 2020), France (Malecki, 2018), Italia (Venturelli A. C., 2017), Germany (Hoffmann, 2018), Spain (Sierra-Garcia, 2018), Poland (Maj, 2018).

-by comparison between countries, for example Romania-Poland (Dumitru, 2017), France-Great Britain-Italy (Aureli, 2019).

Also, standards and guidelines have been developed by various global organizations, which are used by companies depending on the applicable references, this diversity also being a confusing source, either due to insufficient reporting or a surplus of inconclusive and sometimes inadequate information (Bonsón, 2015), or hardly adaptable, mainly in the eastern states (MacLulich, 2004).

Although, as I said, there are a multitude of reporting guidelines, I found the one issued by the Global Reporting Initiative to be the most relevant, according to which indicators can be grouped according to non-financial aspects.

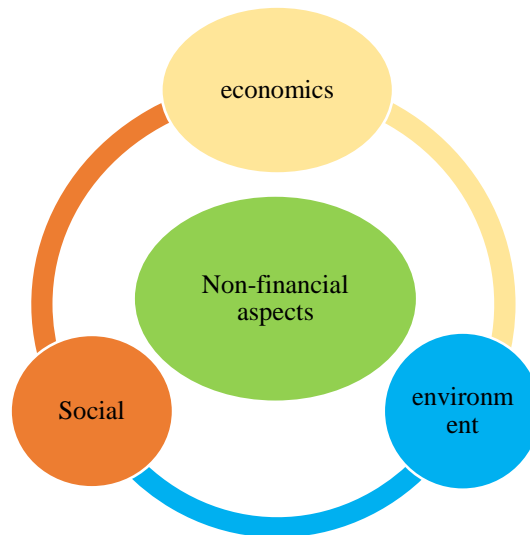


Figure 1. Non-financial Reporting Indicators

Source: own conception

This symbiosis of indicators grafted onto non-financial aspects, imposes the need for a set of detailed indicators and a methodology as simple as possible but which can express as suggestive as possible the performance of multinational companies through the prism of social responsibility.

In this sense, an important role in the implementation of non-financial reporting returns

the regulatory framework, which must impose on entities a method by which they periodically communicate their economic, social and environmental activity and performance.

From the perspective of non-financial reporting, Directive 2013/34/EU introduced several new elements regarding the need for non-financial information with reference to environmental and social aspects.

However, the most important normative act at the level of the European Union is Directive 2014/95/EU which substantially modified the directive from 2013, in the sense that it regulated clear obligations for reporting non-financial information by

entities and large groups established according to certain criteria, NFRD being the abbreviated name of this directive (Non-Financial Reporting Directive).

The reporting entities according to the NFRD are those of public interest with more than 500 employees, which, starting from 2018, are obliged to present information on social and environmental aspects in a non-financial report or statement, alongside those relating to human rights, corruption and bribery.

Romania, which is the champion in terms of alignment with European directives, by Order no. 1938/2016 which supplemented Order no. 1802 of 2014, partially transposed this obligation for public interest entities with over 500 employees.

Later, by Order no. 3456/2018, he extended this declaration, starting from 2019, for all companies with over 500 employees, reporting can usually be done in the administrators' report or alternatively in a separate declaration.

At the European level, NFRD has been debated in the specialized literature, with opinions focusing on two directions:

- one that presents the pluses and minuses of its implementation and the influence on the community and the business environment: (Szabó, 2015) , (Krištofik, 2016), (Amelio, 2017), (Wagner, 2018), etc;
- another through which the reports of various companies from different sectors of activity are scrutinized, in order to assess the potential for the application of the directive (Peršić, 2016), (Dyduch, 2017), (Manes-Rossi, 2018), (Venturelli, 2019), etc.

In Romania, the subject of the NFRD has not been the subject of much research, one perspective being before the application of 2018 (Dumitru, 2017), and another after looking at the way of implementation and the tendency to copy (Tiron-Tudor, 2019), resulting in the conclusion that the impact of this directive was much greater in the countries newly entered the Union compared to those with older states.

What is important to remember is the fact that the Directive allows national states to take into account the national specifics and the applicable reporting framework, having their own practices but also taking international ones into account, this permissiveness also resulting from a study developed by GRI and CSR Europe together with Accountancy Europe in 2019.

Table 1. EU Non-Financial Reporting Framework

Reporting framework	Reporting format	Report content
0	1	2
International	Report administrators	Compliance with the safe harbor principle
Europeans	Separate report	
Nation	Report administrators or Separate report	

Source: own conception

The “save harbor” principle mentioned in the table refers to the fact that those information that should not be made public, disadvantaging the company, should not be included in these reports, being somewhat confidential.

The importance of reporting for a company lies in the following advantages:

- increasing the reputation and trust in the company;
- transparency of information and access for interested persons from within (employees, shareholders) or outside the company (partners, authorities, community, etc.);
- increasing competitiveness and interest for investors;
- identifying the aspects that need to be improved and optimizing the activity;
- reducing expenses and increasing profitability;
- increasing the company’s visibility in the community where it operates, as a result of social responsibility initiatives.

The content of the non-financial report is not nailed down, in principle, according to the international framework, it must contain a minimum of information regarding the 4 aspects related to sustainability, national regulations can be more detailed regarding them.

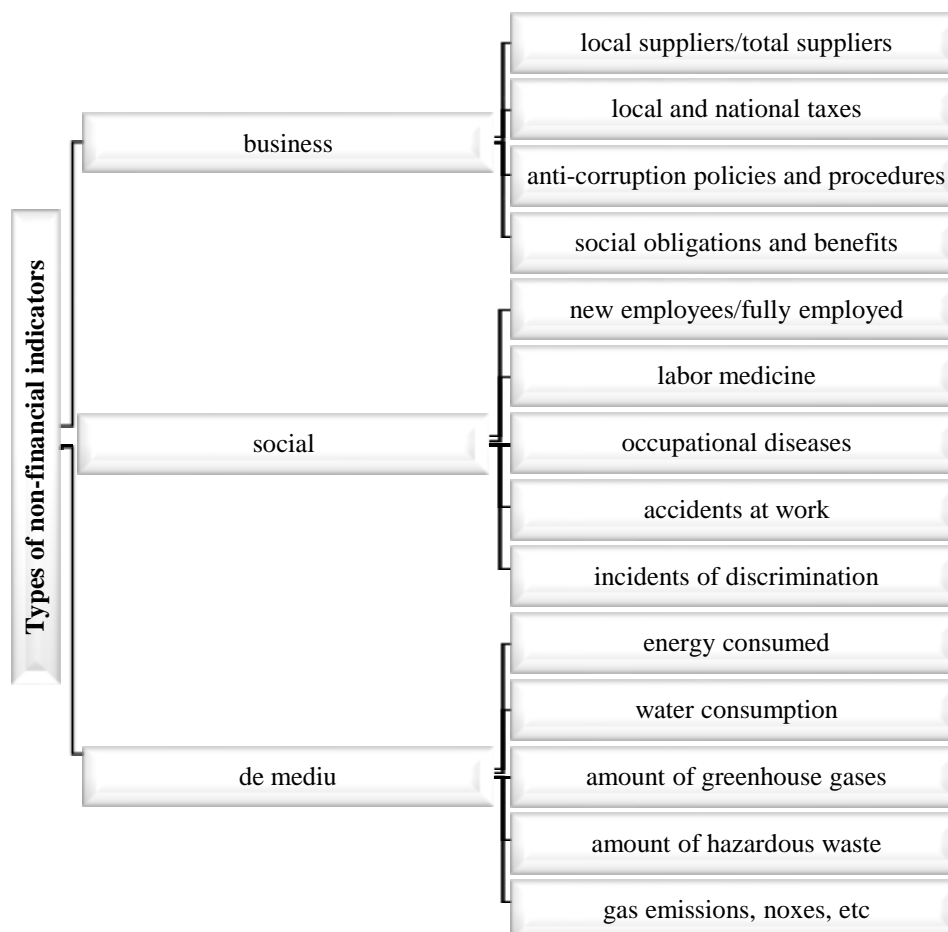


Figure 2. Sustainability Indicators

Source: (CE, 2017)

3. Conclusions

The integrated reporting approach, financial and non-financial, requires an overview of the companies' activity, multidisciplinary, both through the prism of the interest of the shareholders who pursue profit and of the stakeholders.

Non-financial reporting is an important pillar in modeling responsible behavior in the company-community relationship, the gains for the company in the presentation of information being both in the short term, but especially in the medium and long term.

The current international situation, dominated by successive and overlapping crises, which negatively influence people's lives, has shown that facing them and mitigating the effects can only be done through correct information from the business environment to society.

Restarting savings is achievable through the participation of all shareholders and stakeholders, who must collaborate, reporting the changes and adjustments made in the activity of the business environment having a significant role.

The elaborated reports must include both the financial aspects, but especially the non-financial ones, because social and environmental issues tend to have an overwhelming importance in the future of humanity, aiming to increase the confidence of all those interested in making the most pertinent decisions.

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