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Non-Financial Reporting In Emerging Economies Central and South-East Europe

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Abstract

The research currently presented is related to non-financial reporting and the prevailing reporting practices employed by enterprises posing risks to the environment. The worldwide economy is in a continuous change and the companies must face all the new challenges to assure a good development of their business. One of the most pressing challenge is related to the reporting of information in an integrate form. It is considered that the traditional model of financial reporting does not represent a comprehensive image to assess the previous and future performance of a company. According to the Directive 2014/95/EU regulations, reporting of non-financial information encompasses three major areas: environmental, social, and labour. Each is equally important, though environmental issues seem of particular significance in enterprises posing risks to the environment. The natural environment and its protection are important from the viewpoint of future generations. The transition from voluntary disclosure of non-financial information to mandatory regulation in the EU has taken place due to continuous increasing needs to have more transparency and rigor of information disclosed by companies. Indeed, voluntary reporting of CSR has many aspects of weakness, it is difficult to compare the information of different companies; it is a tool to avoid regulation; lack of execution and accountability; and leads to rhetoric, as corporations continue to create many problems for society.

Keywords: *non-financial reporting (NFR), non-financial information (NFI) integrated reporting, corporate social responsibility (CSR) reporting, sustainability reporting, environmental reporting.*

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1. Introduction

The latest scientific data shows that the globe is warming, the climate is changing, and extreme weather events are becoming more frequent: floods, droughts, rising global average temperatures, rising sea levels and shrinking ice caps - all are signs of climate transformation. To combat greenhouse gas emissions, reducing emissions has become a priority for all countries in the world.

In this regard, the organizations, like the Organization for Economic Co-operation and Development (OECD), are working to find out the best solutions to ensure the protection of the environment and a sustainable development.

By including more non-financial information in the annual reports, after the Directive 2014/95 was released, it helped to increase the trust and transparency both public and private sector. By creating an environment based on trust, transparency it was understand the impact of business activities, and sustainability is continuing to be a key element in the annual reports (Directive 2014/95/EU). After the foundation of the new corporate reporting was made, the investors can take into consideration not only the opportunities but also the risks of future investments, having a clear overview of the main topics: environmental, social, and sustainable development issues. Whether we are talking about a separate financial report or a non-financial statement included in the directors' report, the two forms allowed by law for the publication of non-financial information, companies must comply with the same content requirements. The use of a standard or reporting methodology facilitates the reporting process and contributes to obtaining compliance with the legislative provisions (Ion, 2020).

The use of an international reporting standard or methodologies supports companies to transmit information on their sustainable development performance in a coherent way to stakeholders, but also facilitates comparative analysis between different companies operating in the same industry (Dumitru et al., 2019).

2. Problem Statement

Integrated reporting aims to provide an overview for the organization by exposing its performance, business model and strategy in the context of social and environmental issues. In addition, it ensures a continuous improvement in the quality of information provided through this transparency. Therefore, the exposal of non-financial information is a topic in a continuous development (Dumay, 2016) that deserves more research.

We have undergone a recognition of the state of the art, adopting a SLR method, developed by Massaro et al. (2016), applied for a period of ten years (2010 - 2020), to provide perspectives and critiques that will facilitate to determine the future research agenda for Non-Financial Information. We took into consideration four categories of academics' publications (using Web of Science) citation articles, press articles, conference and PhD papers, identifying identified 88 articles related to the studied topic.

Furthermore, the state of the art proved that the effective mandatory nature might influence the presentation of CSR in the literature, directing additional research to explore the quality of non-financial information disclosure and the effect of regulations on practices used in valuing companies. More than that, supplementary analysis should be conducted on the empirical and theoretical foundations of other corporate governance models.

3. Research Questions/Aims of the research

We conducted our study by following the question: "Is it useful the mandatory disclosure of Non-Financial Information?".

After completing the SLR, we have gone further with this research and we defined the following research hypothesis: The degree of usefulness of the mandatory disclosure of Non-Financial Information varies according to variables such as: types of economies, types of economic branch (e.g. gold mining, industrial parks, agriculture, lead smelting, leather tanning, other mining, battery recycling, pesticide manufacturing and storage), culture factors, degree of education (macro-level). To verify the hypothesis and attain the objectives, the following questions needed to be addressed: What are forms of reporting non-financial information? What is the scope of non-financial information reported? What are the users of non-financial information reported?

4. Research Methods

We selected from the pool of 88 articles only the ones focused on sustainable reporting and as result. The importance of sustainability in a company's growth plan is beginning to be more defined at the management level, whether it's about controlling the company's overall effect or producing long-term value for stakeholders. As stated in the new studies, the majority of company's representatives say that sustainability has a significant importance in the decision-making process as well as within operational performance.

Some specialists believe that "sustainability may be truly integrated into the entity's strategy and operations, if it goes through all the process stages to ensure the sustainability and develops new abilities to easily solve the challenges that have arisen" (Thompson & Eijkemans, 2018). Others consider that "sustainability is the key towards a process consisting of several stages in order to achieve an environmental sustainability" (Man & Măcris, 2015).

In the next step, we have decided to analyze the NFI in Romania and Bulgaria and the way these two countries include sustainability in the annual reports.

In order to look have a clear image; we have selected top ten companies from both countries, according to their performance in 2020.

Table 1. Top 10 Bulgarian companies

No.	Company Name
1	Bulgarian Energy Holding Ead
2	Pjsc Lukoil
3	Aurubis Bulgaria
4	National Electric Company
5	Astra Bioplant
6	Advance Properties
7	Goldman Sachs
8	Kaufland Bulgaria
9	Bulgargaz
10	Kozloduy Nuclear Power Plant

Source: Bulgaria Chamber of Commerce and Industry (2019)

Table 2. Top 10 Romanian companies

No.	Company name
1	Automobile- Dacia
2	OMV Petrom
3	OMV Petrom Marketing
4	Rompetrol Rafinarie
5	Kaufland Romania
6	Rompetrol Downstream
7	British American Tabacco Romania Trading
8	Ford Romania
9	Lidl Discount
10	Dedeman

Source: Top Firme (n.d.)

5. Findings

By analyzing the information provided on the websites by each company-selected from Bulgaria, we have identified the following strengths and weaknesses in terms of disclosure of Non-financial reporting.

Strengths:

•Companies have to prepare their annual reports by including detailed non-financial information and a clear overview of the company's results and developments;

•Remuneration policy for administrators and executives are based on good practice used both nationally and internationally;

•All companies in this sample disclose on their website information related to their association.

•General principles and rules of conduct, responsibilities, obligations and approach of the company in business are included in the company's Corporate Governance Code.

Weaknesses:

•The transactions with the company's shares are not disclosed.

•The companies included in this survey do not provide information related to the qualifications of managers

•In Bulgaria, the listed companies have to present information about "programme for the application of the internationally recognized good corporate governance standards" and to reveal "the reasons due to which the issuer was not in compliance with the programme", beyond referring to the National Code or revealing what "programme" represents. Consequently, the companies use to avoid the explanations and the corporate governance topic appears like an unimportant topic.

In the next step, we have analyzed the information provided on the websites by each company-selected from Romania too and we will present the results in the same manner, by presenting strengths and weaknesses.

Strengths:

•All ten companies in this sample disclose non-financial information in their articles of on their websites

•All companies provide a dashboard and present their situation in parallel with the Governance Code of BVB (Bucharest Stock Exchange)

Weaknesses:

•Non-financial information disclosure is often vague even the companies appear to comply;

•The lack of detailed information regarding corporate governance on the official websites.

Related to sustainability for all the companies from both countries we identified that most of them are involved and sustain programs to increase sustainability:

•Generation, monitoring and reporting of greenhouse gas

•Proactive involvement with all stakeholders, at all levels

•Application of social and environmental performance standards and transparency principles, both internally and throughout the supply chain

•Cooperation with other leaders in the construction value chain to develop new solutions

•Developing a culture of inclusion in the workplace and employee development programs

•Human rights, improving people's lives, developing the community

•Increasing the quality of life through inclusive business models/

6. Discussions

The COVID 19 crisis that continues to affect the entire world influences the way in which companies prepare their non-financial reporting. In Romania, we noticed that the use of environmental keywords started to raise. In Bulgaria, the companies have to present their non-financial information in a more accurate way and stay closer to the environment issues.

In the last year, the Directive 2014/95 started to be reviewed and the accent is put on sustainable investment to consolidate European strategies. The Annual Sustainable Growth Strategy 2020 (ASGS) reflected the vision of economic growth that European Commission promotes in the context of the European Green Pact. According to it, long-term economic challenges (related to climate change, digitalization and demographic change) need to be addressed through a new growth model that allows economic competitiveness to be maintained and the goal of climate neutrality to be achieved.

The message of ASGS 2020 was that sustainable development and the well-being of citizens must be at the heart of EU and Member States' action, and economic growth is not an end in itself. Thus, the European Commission has proposed four priority dimensions that are mutually reinforcing: (1) environmental sustainability (the transition to a circular economy); (2) productivity growth (research and innovation, digitalization, strong industrial base, SME-friendly business environment, access to finance, deepening of the Single Market); (3) equity (investment in skills and health, fair taxation, quality of jobs); (4) macroeconomic stability (strengthening Economic and Monetary Union). In 2021, the Annual Strategy for Sustainable Growth emphasizes sustainable development and continues to reflect the European Green Deal, which the EU has set itself the goal of achieving climate neutrality by 2050. Thus, the European Commission proposes to maintain the four priorities identified for 2020, environmental sustainability, productivity, equity and macroeconomic stability (Stubbs & Higgins, 2015).

7. Conclusions

The major concern for the humanity is represented by the global warming (Neagu, 2020).

Respecting the human rights, involvement in the community life and responsibility toward the environment are essential values for all the entities under study. Although it is important that these entities undertake supplementary measures to reduce pollution, and support more the society to develop besides presenting information in a structured form in their annual reports (Wszelaki & Tkocz-Wolny, 2019).

Considering that mostly in both countries the companies disclose their disclose on their webpages non-financial information but not being enough comprehensive, in some cases vague, would be better if the companies will take

into account the existing international manuals like OECD Guidelines for Multinational Enterprises.

Additionally, most oversights in presenting the non-financial information can come from the fact that the management do not give the necessary importance to it. The management team should grant the time and resources needed for the collection, processing and analysis of data that will be disclosed.

In conclusion, the use of an international reporting standard or methodologies supports companies to transmit information on their sustainable development performance in a coherent way to stakeholders, but also facilitates comparative analysis between different companies operating in the same industry and here the very important thing is the way this information is presented.

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