

## RESPONSABILITY AND TRANSPARENCY ON NON-FINANCIAL REPORTING

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### **Abstract**

*Starting from the reality that in the current economy financially is not the only nor the most important to evaluate the performance, should be considered the extension of performance reporting from the financial (traditional) to the global including social and environmental.*

*Therefore, present and future research efforts regarding the reporting and economic entities will be focused on these two components developed environmental and social dimensions that can not be ignored.*

**Keywords:** non-financial reporting, environmental reporting, social reporting

**JEL Classification:** M40, M41

### **1. Introduction**

If not long ago economic entities would have reported aspects of social and environmental norms issued ,today through the European Commission, large companies and large groups of companies are obliged to report these issues.

These issues are indispensable to users of information to judge the overall performance of the business and those entities.

Therefore, the present requirements of the European Union institutions on reporting non-financial enterprises and large groups of enterprises require that they report to both environmental and social as well as issues regarding compliance with human rights issues on combating corruption and bribery.

In this chosen study , we will focus on legislative updates on non-financial reporting and their degree of assimilation of the economic environment in Romania.

### **2. Compulsory non-financial reporting**

In the reporting companies, European Council Directive 2014/95 / EU introduce a requirement that certain companies to publish information related to the impact they have on the environment and society.

The new directive amending Directive 2013/34 / EU on the annual consolidated financial statements and related reports of companies. The first reports made by non-financial companies due to the introduction of this requirement are reporting the financial year commencing 1 January 2016 or during the calendar year 2017.

**Significant causes** of the introduction of non-financial reporting requirement in mind [2]:

- ◀ The market and social and environmental pressures on businesses that have increased in recent years;
- ◀ Increase the share of the importance and role of sustainability in corporate activity;
- ◀ The growing importance given to non-financial performance calculations and investment strategies of the organization.

Most stakeholders, and here we consider particularly investors, NGOs and other beneficiaries appreciated the current level of transparency does not meet the information needs both in terms of quantity and quality of social and environmental information available [1].

The quality of non-financial information presented by companies remains a big problem in the sense that non-financial information published by companies in the sense investors are not sufficiently relevant, balanced, accurate, timely and comparable.

By introducing mandatory reporting of non-financial for the financial year beginning with 1 th of January 2016, meaning the new directive are concerned entities have more than 500 employees, here comes enterprises listed on stock exchanges in any Member State, credit institutions, insurance institutions and reinsurance, financial institutions or companies designated by the Member States that have significant relevance for investors by nature of their size or number of employees.

### 3. Arrangements for non-financial reporting

Non-financial reporting in accordance with the requirements of the new Directive for the categories of entities mentioned can be done in two different ways [3]:

- Either a *non-financial statements* as the management report, but distinct from it;
- Either a *separate report*.

We find that both ways of reporting directive does not prescribe a format default presentation, but sets certain requirements to fulfill. Thus, for *the report as a non-financial statements*, the Directive *provides a minimum set of information to be disclosed*, copied below:

- ◀ A short description of the business organization;
- ◀ A description of the policies adopted by the organization on environmental issues, issues social and personal, human rights and fighting corruption and of bribery;
- ◀ An analysis of the main risks associated issues mentioned both in the organization's operations and in terms of business relationships, products or services that could have a negative impact;
- ◀ non-financial performance indicators relevant to the organization;
- ◀ references and explanations of amounts reported in the financial statements.

The condition imposed by the current European legislation is that statement non-financial is stated clearly reporting framework used such as the national, EU or international (UMAS, Glabe Reporting Initiative, United Nations Global Compact, ISO 2600 etc.) . Where is chosen as the method of reporting separate report, the report distinct management requirements to keep are:

- ◀ To be published together with the report of management;
- ◀ To be made available to users within relatively quickly, not to exceed six months from the balance sheet date, the website of the company;
- ◀ To be mentioned in the Management Report.

It should be noted that for this reporting alternative report need not rely on a national, EU or international one. So the organization can opt to use and develop their own instrument, reporting framework, in compliance with the above requirements.

The second component of Directive 2014/95 / EU is the obligation of presenting a diversity policy descriptions used terms governing bodies, management of the enterprise. The description should cover at least the age, gender, education and professional experience, diversity policy objectives, the way it was implemented and the results of this policy during the reporting period [3]. This obligation builds on the work of European institutions to promote gender balance in the bodies of administration, management, control for large companies and groups of companies [3].

As we have already pointed out, new european legislation does not impose a strict model to non-financial report or report template diversity policy. What must be respected, regardless of the manner of reporting chosen is related to content in that it is obligatory to *retrieve information on environmental, social information and personnel*, and the degree of novelty are mandatory *information on rights man, fight against corruption and of bribery*.

Please note that the current European legislation on non-financial reporting does not come with any clarification on the order of information presented, detail or compression-related information required to address these four sections.

In the event that organization or large groups that do not have policies to reduce the risks of compulsory subjects in the four sections to tackle, new European legislation to non-financial reporting requires them to clearly explain the absence of these policies and why.

**The purpose of all the provisions** presented and analyzed above, brought by the new european legislation for non-financial reporting, we can summarize as representative [6]:

- ◀ to achieve a more complete, relevant, real activity concerned entities;
- ◀ is the result of awareness that currently profit is not the only value creation, environmental issues, social also have an important role in creating value for both the entity and the community with which it interacts;
- ◀ requires covered entities that through their work have a greater concern for the environment and humans.

### 4. Reporting Accepted Standards

Companies with over 500 employees covered by the European Directive 2014/95 / EU, providing non-financial information can be used as a standard reporting [4]:

- National frameworks already exist;
- Personnel of the European Union (System of Environmental Management and Audit);
- International framework: United Nations Global Compact (UNGC); Guiding principles on business and human rights UN;
- OECD guidelines for multinational enterprises: ISO 26000; Global Reporting Initiative (GRI), etc.

## 5. The impact of Directive 2014/95 / EU on the business environment in Romania

European Commission Directive obliges large companies with over 500 employees to produce an annual environmental and social impact, and anti-corruption practices. A study on data from the National Trade Register Office show that Romania will be covered by Directive 720 private organizations and public interest entities which will be the first since 2017 to publish non-financial reports under the new legislation [7].

The version voted, subsidiaries may choose to be exempted from reporting provision provided that the information relating to them be included in the Consolidated group level. It is a practical measure that will allow a large number of companies to shirk from non-financial reporting.

According to statistics from the Trade Register in Romania, the top 50 companies in terms of the number of employees, about half are subsidiaries of international companies. This means that out of 720 companies with over 500 employees, some may choose not to report.

If you are currently in Romania, of companies with over 500 employees reporting non-financial information less than 10% of them, since 2017, the year will appear first reports under the new legislation, their number will increase.

In the long term it is expected that the existence of legislative non-financial reporting empower companies concerned to conduct a serious and sustainable quality reporting.

## 6. Conclusions:

We believe that transparency in social and environmental reporting should be essential for any organization, regardless of industry part only and simply because of the respect of peers and the space in which it operates.

New legislative measures imposed by adopting and implementing the provisions of European Directive 2014/95 / EU on non-financial reporting has II Project, to ensure greater transparency and non-financial responsibility among companies concerned.

It aims to increase the transparency and comparability among large companies. The information they provide will be available direct investors interested in sustainable development of target companies, investors can have a complete image on the position and performance not only in economic and financial matters but also in aspects of sustainable development.

The need to improve quality and non-quality financial information is part of the EU strategy to promote corporate social responsibility (CSR).

Currently the focus is on the fact that non-financial reporting is essential for the transition to a sustainable economy which combines long-term profitability with social inclusion and protection of natural resources.

## 7. References

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