



## A NEW DIMENSION IN THE REPORTING AND PERFORMANCE ACTIVITY OF THE ENTERPRISE – NON-FINANCIAL REPORTING

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### Abstract

*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. Therefore, the present requirements of the European Union institutions on the non-financial reporting of the enterprises and large groups of enterprises require that they report both the environmental and social issues as well as those regarding the compliance with human rights, issues on combating corruption and bribery. The aim is to increase the transparency and comparability among large companies.*

*The merit and importance of non-financial reporting is the fact that reporting business performance goes beyond traditional financial dimension, thus complementing the performance concept with two new other dimensions, e.g. environmental and social.*

**Key words:** *non-financial reporting; sustainable development; reporting models; reporting accepted standards.*

**JEL Classification:** M40, M41



### **Introduction**

Starting from the reality that in today's economy, the financial point of view is not the only one and the most important to assess performance, the management entity must take into account as well the social, economic and environmental impact exercised over any entity that has an interest in the company's results.

The merit and importance of non-financial reporting is the fact that takes business performance reporting beyond the classical financial size, thus completing the concept of performance with two other new dimensions, environmental and social.

Now, if we ignore the social and environmental issues, especially large corporations, they risk losing share of the international market, bear the cost of greening the area of activity, allocate large sums for damage control to regain consumer confidence.

If until recently reporting of social and environmental issues remained at the discretion of the economic entities, today through normative acts issued by the European Commission, large companies and large groups of companies are obliged to report these issues.

These aspects are indispensable to users of information in order to judge properly and globally the activity performance of the respective entities.

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

### **Literature Review**

The research theme we have chosen responds the current needs in the area of non-financial reporting. We have studied current legislation and the latest works in area, as the topic proved to be one of great interest.



### **The Environmental and Social Dimension of Performance**

**The environmental dimension** of performance concerns the impact of an entity on natural systems, including ecosystems, soil, air, water. Entities are encouraged to report this type of performance both in absolute and in relative values.

*Absolute values* give an idea on the used size or impact, allowing the user to analyze performance in the context of some larger systems.

*Relative values* illustrate the efficiency of the entity and allow the comparison between different size entities.

Environmental performance includes information which characterizes: the amount of energy consumed and its origin, treatments applied to resources, management of emissions, waste, residues, how to exploit the earth, management of the environment in which the entity exists and operates.

Good environmental practice comes from a good economic practice that would generate efficiency through environmentally friendly technologies, through products, services compatible with the environment, through conserving the natural resources and energy.

Controlling and minimizing impact of the entity's activities on the environment through reduction, reuse and recycling become important goals for more and more economic entities.

**The social dimension of performance** can be measured by analyzing the interactions between the entity, committed human resource and any other parties with whom contacts are established.

Social performance indicators include: relations between employees, health and labour and human resource safety, the salary/cost of living ratio, eliminating discrimination, respect for the local community, impact on community development, etc.

Many of the social issues covered by this type of performance are not easy to quantify, this is way a number of social indicators are qualitative measures of the systems and activities of entities such as managerial policies, procedures and practices.

To assess social and environmental elements it is necessary to use different units of measure as imposing monetary unit can lead to false representation and underestimating the impact compared to economic aspects. A better support has qualitative or descriptive type reporting.

### **Non-Financial Reporting Compulsoriness**

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

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

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

*The objective of new legislative measures* is to ensure greater transparency and responsibility of reporting non-financial information, to ensure fair competition conditions in businesses between Member States

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



## **What Reporting Standards May Be Used in Promoting Sustainable Development of Information Published**

Companies with over 500 employees targeted by the European Directive 2014/95/EU, for providing non-financial information can use as a reporting standard: the National frameworks already existing; European Union' frameworks (System of Environmental Management and Audit); the international framework: United Nations Global Compact (UNGC); UN Guiding Principles on Business and Human Rights; OECD guidelines for multinational enterprises: ISO 26000; Global Reporting Initiative (GRI), etc.

GRI is an international organization whose purpose is to promote the publication of information on sustainable development.

The guidelines developed by the GRI do not aim to replace not the current applicable accounting standards, *but to provide a basis to meet the credibility and relevance requirements in non-financial reporting, that will complement the information given in the financial statements.*

It also aims to advance the quality of social and environmental reporting at comparability, rigor and verifiability level, specific to the financial reporting.

In developing its conceptual framework, GRI was inspired by the international (IASB) and U.S. (FASB) accounting references.

*Natural environmental indicators* recommended by the GRI, are grouped under the three main themes as shown in Table no. 1.

As the objective of the financial statements is to provide a faithful image of financial position, performance and evolution of the financial position of the enterprises, objective of the social and natural environment conceptual framework is to provide a balanced and reasonable picture of the following areas: economic, social and environmental.

Another international body, very important, that makes efforts in promoting the publication of information on sustainable development is the United Nations.

**Table no. 1. Natural environmental indicators recommended by the GRI**

<b>Categories of indicators</b>	<b>Detailing directions of categories of indicators</b>
Resource consumption	<ul style="list-style-type: none"> <li>– materials consumption;</li> <li>– water consumption;</li> <li>– energy consumption.</li> </ul>
Impact of the entity’s activity on the natural environment	<ul style="list-style-type: none"> <li>– terms of soil;</li> <li>– shedding in the air, water, soil, seriously affecting the natural environment;</li> <li>– waste;</li> <li>– the amount of benefits paid by court order on the natural environment.</li> </ul>
Measures taken by the entity to minimize these impacts	<ul style="list-style-type: none"> <li>– initiatives to exploit renewable energy sources and improve energy efficiency;</li> <li>– objectives, programs, forecasts of protection and restoration of ecosystems and indigenous areas of degraded areas.</li> </ul>

Source: [www.globalreporting.org](http://www.globalreporting.org)

This has developed a conceptual framework and methods to assess and account the consequences of the businesses’ activities on the natural environment.

The indicators recommended by the UN on the natural environment are grouped into the following categories as shown in Table no 2.

Next we will point out some representative issues related to the Global Reporting Initiative (GRI) standards, nowadays considered the most widely used standards for over 5000 companies from over 90 countries.

Global Reporting Initiative (GRI) has recently launched a new version of the standard, namely G4.

In the non-financial reporting process, the Global Reporting Initiative recommends to the organizations the use of the GRI G4 standard from a variety of reasons which we will present summarized below.



**Table no. 2. Indicators recommended by the UN on the natural environment**

<b>Categories of indicators</b>	<b>Detailing directions of categories of indicators</b>
Water	– the amount of consumed water; – the nature of water; – water use
Energy	– the amount and nature of energy consumption, etc.
Greenhouse effect	– emissions of greenhouse gas from the use of petroleum, mineral consumption, etc
Ozone layer	– the consumption of goods with effect on the ozone blanket compared to net value added of the enterprise; – information on the production, purchase, sale, storage, recycling goods, influence the ozone layer, etc.
Waste	– the nature and amount of waste produced; – nature of the treatments used to reduce or suppress them, etc.

Source: [www.globalreporting.org](http://www.globalreporting.org)

GRI standards are used on a large scale in the world as a model for the reporting framework for the non-financial aspects. For example, at the present, these are used by over 5000 organizations from at least 90 countries, advantage that provides a uniform as possible reporting and comparability basis.

The alignment of the GRI G4 standard requirements to the Directive 2014/95/EU. It should be noted that both the GRI G4 standard and the aforementioned Directive cover the same compulsory essential aspects: general information about CSR, diversity, environmental protection, social aspects, aspects relating to employees, human rights protection, fight against corruption and bribery.

The G4 version brings a number of changes on sustainable reporting, the most representative we will present them below:



## Issue 2/2016

❖ Eliminating the Application Levels – in their place, the organizations will be able to choose between two options in order to produce a report according to GRI, the “Core” option or the detailed one, more “Comprehensive”. The “Core” option contains essential elements of a sustainability report. The “Core” option provides the background against which an organization communicates its economic, environmental, social and governance performance impact. To achieve a *detailed report*, all indicators for both standard aspects and for specific aspects identified as relevant must be reported.

❖ Putting a greater emphasis on the relevance of the materiality of content – encouraging organizations to report on matters deemed relevant, important for the impact of their activity. They must state the field of activity of the organization where issues are relevant throughout the value chain.

❖ Option G4 introduces a new category of aspects into the standard, namely *Ethics and Integrity* – requesting information about the values, principles, the ethical conduct of the organization, internal mechanisms and external reporting of the concerns regarding the infringement of ethical norms or of the integrity.

❖ G4 eliminates the requirement that reports be verified by an external organization, but obliges organizations that are reporting to state in its *Contents* whether reported specific indicators have been verified externally or not.

### **Requested Methods of Non-Financial Reporting**

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

- either under the form of a *non-financial statements* such as that of the management report, but distinct from it;
- either under the form of a *separate report*.

For the report as a *non-financial statements*, the Directive provides a *minimum set of information to be disclosed*, given below: a short description of the organization’s activity; a description of the policies adopted by the





organization on environmental issues, social and personal issues, observance of human rights and combating corruption and bribery; an analysis of the main risks associated to the issues mentioned both in the organization's operations level 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 regarding the amounts reported in the annual financial statements.

The condition imposed by the current European legislation is that in the non-financial statement to be clearly stated the reporting framework used such as the national one, EU or international one.

In the event that one is opting for the method of reporting in the form of separate report, distinct from the management report, the requirements for drafting are: to be published together with the management report; to be made available to users in a relatively short period, not exceeding six months from the balance sheet date, on the website of the company; to be mentioned in the management report.

It should be noted that for this reporting alternative is no longer necessary that the report be based on a national, EU or international framework. So the organization can opt to use and develop its own instrument, reporting framework, in compliance with the above requirements.

What must be respected, regardless of the manner of reporting chosen, is related to content, meaning that is obligatory to reflect *information related to the environment, social and personal information*, and, in addition, with degree of novelty are the compulsoriness of *information regarding human rights compliance, combating corruption and bribery*.

### **Conclusion**

The impact of economic entities on the environment and society is becoming increasingly important for managers, in the periods to come, generating a number of present and future risks and uncertainties, on which an economic entity must deal, therefore needs to include them in public reports.



## Issue 2/2016

In current more selective conditions in which the consumers show a growing demand for products and services that would not negatively affect the environment, economic entities find themselves in the situation where they have to report information about such characteristics of their products and services.

Therefore, at the present, the requirements imposed by the European Union institutions on non-financial reporting for enterprises and large groups of enterprises stipulate that they report both environmental and social aspects as well as aspects regarding compliance with human rights, aspects on combating corruption and bribery.

The new legislative measures imposed by the adoption and implementation of the provisions of European Directive 2014/95/EU on non-financial reporting have the objective to ensure a greater non-financial transparency and responsibility among concerned companies.

The aim is to increase the transparency and comparability among large companies.

The merit and importance of non-financial reporting is the fact that takes business performance reporting beyond the classical financial dimension, thus completing the concept of performance with two new dimensions, environmental and social.

Nowadays, if we ignore the social and environmental issues, especially the large corporations, they risk losing shares of the international market, bear the cost of greening the area of activity, allocate large sums for damage control to regain consumers confidence.

We can support as central feature that *carrying out the activities of the organized entities on the principles of environmental protection ensure the economic sustainability, organization that has direct beneficial effects on economic performance growth.*

Corporate social and environmental reporting creates benefits for investors by reducing risks and less by increasing profits, and the researches has shown that *Annual Reports* represent one of the most efficiently methods of presenting such information to investors.



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